Supreme Court, U.S.
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No. _____

In the Supreme Court of the United States

GFI, INC.,

Petitioner,

v.

FRANKLIN CORPORATION,
WASHINGTON FURNITURE MANUFACTURING CO.,
ASTRO LOUNGER FURNITURE MANUFACTURING,
PARKHILL FURNITURE, INC.

Respondents.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR WRIT OF CERTIORARI

DAVID WOLF
Counsel of Record

JAMES J. FOSTER
MATTHEW B. LOWRIE
WOLF, GREENFIELD & SACKS, P.C.
600 ATLANTIC AVENUE
BOSTON, MA 02210
(617) 720-3500
(617) 720-2441 FACSIMILE

Counsel for Petitioner

BECKER GALLAGHER LEGAL PUBLISHING, INC.,
CINCINNATI, OHIO 800-890-5001

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QUESTIONS PRESENTED

(1) Should the obligation of an applicant to disclose to the Patent Office information bearing on the patentability of his invention be limited to information that would be prior art under 35 U.S.C. § 102?

(2) Can a patent be enforced where the applicant disclosed to the Patent Office all prior art but did not disclose information that was irrelevant because it was not prior art?

(3) Would a rule that patent applicants are required to disclose information that is not prior art disrupt the settled expectations of the inventing community?

PARTIES TO THE PROCEEDINGS

PETITIONER

Petitioner is GFI, Inc., a Mississippi corporation formerly known as The Gentry Gallery, Inc. No publicly held company owns ten (10%) or more of GFI, Inc.'s stock. GFI, Inc. was the Plaintiff in the District Court, and the Appellant in the Federal Circuit Court of Appeals.

RESPONDENTS

Respondents are Franklin Corporation, Washington Furniture Manufacturing Co., Astro Lounger Furniture Manufacturing, and Parkhill Furniture, Inc. Franklin Corporation, Washington Furniture Manufacturing Co., and Astro Lounger Furniture Manufacturing were Defendants in the District Court, and Cross Appellants in the Federal Circuit Court of Appeals. Parkhill Furniture, Inc. was a Defendant in the District Court, and an Appellee in the Federal Circuit Court of Appeals.

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Petitioner, GFI, Inc. ("GFI"), respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (below at 3a-12a) is reported at 265 F.3d 1268. The opinion of the district court (below at 13a-60a) is reported at 88 F. Supp.2d 619.

JURISDICTION

The court of appeals entered its judgment on September 7, 2001 and denied rehearing on June 18, 2002 (below at 1a-2a). This Court has jurisdiction under 28 U.S.C. §1254(1).

RELEVANT STATUTORY PROVISIONS

Title 35, Section 102 ("Section 102") (set out in full below at 61a-63a) provides in relevant part that "[a] person shall be entitled to a patent unless" one or more of certain events had occurred prior to certain specified dates. Section 103 of that title provides in pertinent part that:

> [a] patent may not be obtained though the invention is not identically disclosed or described as set forth in Section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time that the invention was made to a person having ordinary skill in the art to which said subject matter pertains.

STATEMENT OF THE CASE

This case presents this Court with an opportunity to resolve a question that has, over the past twenty years, bedeviled the patent bar and had a profound impact on patent litigation, namely, under what circumstances can the failure to provide information to the United States Patent and Trademark Office (the "PTO") render a patent unenforceable due to "inequitable conduct."

From 1928 through 1945, this Court decided four cases that laid the basis for an "inequitable conduct" defense. As outlined below (at Part I), each case where the patent had been held unenforceable had involved a fraudulent statement, or its equivalent, in the Patent Office. Since that time, the lower courts have expanded that doctrine to include as "inequitable conduct" the failure to cite certain types of information to the Patent Office when prosecuting a patent application.

It is, however, impossible for an applicant to disclose every iota of information during prosecution. In the absence of a clear standard of what must be disclosed, charges that "inequitable conduct" was committed can be easily made by a party accused of infringement. Predictably, such charges have become commonplace. The Federal Circuit has described the ubiquity of these charges as a "plague of litigation-inspired attacks that fed on the unfamiliarity of decision-makers with the complex procedures of patent examination," *Magnivision* v. *Bonneau Co.*, 115 F.3d 956, 960 (Fed. Cir. 1997), and has decried the "ease with which a relatively routine act of patent prosecution can be portrayed as intended to mislead or deceive." *Northern Telecom, Inc.* v. *Datapoint Corp.*, 908 F.2d 931, 939 (Fed. Cir. 1990). As stated in *Kimberly-Clark Corp.* v. *Johnson & Johnson*, 745

F.2d 1437, 1454 (Fed. Cir. 1984): "'Fraud in the PTO' has been overplayed, is appearing in nearly every patent suit, and is cluttering up the patent system."

The decision below has expanded the definition of inequitable conduct in a manner that can only encourage the "plague" of such charges and promote uncertainty in the patent bar. That decision in fact, was, inconsistent with this Court's precedent and contradicted the holding of eight previous decisions of the Federal Circuit by upholding a judgment of unenforceability of a valid patent simply because the applicant had not disclosed events that, although similar to the invention, were not prior art under Section 102. Because those events were not prior art, those events - no matter how similar to the invention - would not and could properly not have been considered by the patent examiner to determine patentability. Accordingly, they could not have been material to patentability. To allow the nondisclosure of information that could not have affected the patentability of an invention to bar its enforcement is to undermine the congressionally-mandated requirement that an invention "shall be entitled" to a patent without one of the statutorily-designated exceptions.

Only this Court can resolve this issue and lift the cloud of uncertainty hanging over the heads of countless patent owners whose disclosures to the PTO were in accordance with the line of Federal Circuit decisions predating this one holding that activity that did not meet the criteria of Section 102 need not be disclosed. Petitioner is thus asking this Court to adopt a clear and unambiguous standard - namely, that where the patentability issue would be one of novelty or nonobviousness, the only information that is required to be disclosed is information of prior art, as defined by Section 102.

It is important to decide the questions presented now. Because this decision departs from the explicit and easily understood guidelines of the statute (Section 102) that defines what is prior art, it raises immediate questions about the enforceability of a large number of issued patents and leaves patent practitioners without guidance, and thus at a severe personal risk, as to what must be disclosed to the PTO in future patent prosecution. It likewise leaves the holders of substantial intellectual property holdings in a state of uncertainty as to the value of their holdings.

It has been more than fifty years since this Court set clear, appropriate boundaries on the "inequitable conduct" attack on patent owners and their attorneys. It is now time to revisit that issue.

Certiorari should accordingly be granted.

1. In a series of cases over fifty years ago, this Court held that a patent may not be enforced where the patent owner comes into court with "unclean hands" (Part I, below). (One example is a false affidavit submitted to the PTO in order to cause that agency to issue the patent.) The accusation of unclean hands, which has come to be commonly known as the "inequitable conduct" defense, has unfortunately become a staple in patent litigation.

The Federal Circuit has required that a charge of inequitable conduct must be proved by first producing clear and convincing evidence of a threshold level of materiality and a threshold level of intent to deceive. If both thresholds are met, the court must then conduct a balancing test weighing the evidence of materiality and intent to make the ultimate determination of inequitable conduct. *Union Pacific Resources* v. *Chesapeake Energy Corp.*, 236 F.3d 684, 693

(Fed. Cir. 2001).

In the jurisprudence that has developed under this doctrine, perhaps the most controversial issue has been what type of information should be considered "material" such that a failure to have disclosed it to the PTO would constitute a "fraud" or otherwise be so culpable that the failure should cause the patent to be unenforceable. The test that the Federal Circuit had adopted prior to this case was that information is "material" if there is a substantial likelihood that a reasonable examiner would consider it "important" in deciding whether to allow the application to issue as a patent. *Halliburton Co.* v. *Schlumberger Technology Corp.*, 925 F.2d 1435, 1440 (Fed. Cir. 1991).

Because "important" is an ambiguous and subjective term, this standard has provided little guidance[1] to the district courts and thus the inequitable conduct defense has continued to be frequently asserted. Until this case, however, the Federal Circuit had repeatedly and consistently held information that did not qualify as prior art under Section 102 to be for that reason not material (at least where, as here, the withheld information could only be relevant to the novelty or obviousness of the invention.)

In the case at bar, however, the Federal Circuit, disregarding Section 102, upheld a finding of unenforceability based upon a failure to disclose activity that was not prior art

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[1] In *Pfaff* v. *Wells Electronics, Inc.*, 525 U.S. 55, 66 (1998), this Court noted that the then-existing test of the Federal Circuit for the "on sale" bar under Section 102 had been criticized as "unnecessarily vague." In promulgating a new test, this Court indicated its concern with having a "definite standard," *id.* at 65, and not "undermin[ing] the interest in certainty." *Id.* at 66.

under that statute. Because the activity was not prior art, however, a patent examiner could not and would not have considered it in evaluating a patent application (under the PTO's own rules). In holding that information that would be unusable by the PTO during prosecution of the application should have been submitted to the PTO, the decision radically departed from the Federal Circuit's own precedents, as well as from decisions of this Court.

2. The Constitution empowers Congress to "secur[e] for limited Times to ... Inventors the exclusive Right to their ... Discoveries" in order "[t]o promote the Progress of Science and useful Arts." U.S. Const. art. I, § 8, cl. 8. Under the Patent Act, "patentability is dependent upon three explicit conditions: novelty and utility as articulated and defined in § 101 and § 102, and nonobviousness ..., as set out in § 103." *Graham* v. *John Deere Co.*, 383 U.S. 1, 12 (1966). The Act thus generally permits the issuance of a patent for "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." 35 U.S.C. § 101. A patent may not issue, however, if "the subject matter [of the invention] as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art." *Id.* § 103.

This case presents the legal question of what information is "material" to the granting of a patent and thus is required to be disclosed to the patent examiner by an applicant. Specifically, this Court is asked to address whether information is required to be disclosed that could not and would not have been considered by the patent examiner to determine patentability because it was not prior art under Section 102. To evaluate that question, some background is helpful.

To obtain a patent, an inventor is required to submit an application to the PTO. 35 U.S.C. § 111. The application is to contain a specification with a written description of the invention, concluding with "one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention." 35 U.S.C. § 112. Upon filing, the application is referred to a patent examiner, who makes an initial determination whether what has been claimed is patentable.

Title 35 Sections 102 and 103 set out the "conditions for patentability" and provide that a person shall be entitled to a patent unless one or more of certain events have occurred. Specifically, subsections 102(a)-(b) and (d)-(g) (below at 61a-63a) list the various events that would bar the applicant from obtaining a patent if any of them occurred "prior" to certain dates, such as the patentee's date of invention. The collection of "prior" events that fall within those subsections of Section 102 constitute the body of information commonly referred to as the "prior art."

In determining whether what the applicant seeks to patent is novel under Section 102, the examiner is required to compare the claims of the application with the prior art of which he is aware. In doing so, the examiner typically relies on prior art either obtained by his own search through PTO files or provided to him by the applicant. If he determines that a claim identically discloses or describes one of those prior art references, he is required to reject the claim under Section 102 as being anticipated by the reference.

Section 103 provides that a patent for an invention, though not "identically disclosed or described as set forth in Section 102," may not be obtained "if the differences between the subject matter sought to be patented and the *prior art* are

such that the subject matter as a whole would have been obvious" (emphasis added). Again, the "prior art" referred to is the items listed in the above subsections of Section 102. As is the case with determining novelty under Section 102, the patent examiner, in determining whether what has been claimed would have been obvious, will also compare the claims with the prior art of which he is aware.

Since "prior art" is limited to what is defined as such in the statute, an event that occurred too late to fall within any the above subsections of Section 102 is not "prior art." Examples include (1) public knowledge or use or invention by another after the invention by the applicant (§ 102(a), (e), (g)); (2) a publication or sale after a date one year before the filing of the patent application (§ 102(b)); or (3) a foreign patent issued after the date of the application (§ 102(d)). Because the statute includes only prior art among the permissible grounds for refusing a patent on Section 102 or 103 grounds, events too late to be prior art would not be considered by the examiner in determining novelty or nonobviousness.

Of course, there are issues that an examiner must consider other than novelty and non-obviousness. On those issues, information other than prior art might be important to the examiner. Where, as here, however, the only possible relevance of the undisclosed information would have been to the novelty or non-obviousness of the invention, that the activity did not qualify as prior art under § 102 should have been (and before this decision would have been) conclusive of its nonmateriality.

3. Petitioner GFI brought this suit alleging that defendants had infringed GFI's patent ("the '244 patent") for a unit of a sectional sofa in which two independent reclining

seats ("recliners") face in the same direction.

The invention of the '244 patent can be simply explained. Unlike conventional stand-alone sofas, which were linear with three seats and had an arm at each end, sectional sofas were typically organized in an L-shape with arms at the exposed ends of the linear sections. Because recliners had adjustment controls on their arms, sectional sofas could only have two recliners if the recliners were located next to the arms at the exposed ends of the linear sections. Due to the typical L-shaped configuration of sectional sofas, the recliners therefore faced in different directions (Pet. App. 15a).

The invention of the '244 patent solved this dilemma by, among other things, placing a console with an armrest between two recliners that face in the same direction (*id.*). This console, which was fixed to the recliners to form a unitary structure, accommodated the controls for the reclining seat that was not on the exposed end of the sofa, thus allowing two recliners to be located on the same linear section and allowing two people to recline while watching television and facing in the same direction (*id.*).

At trial, GFI contended that Sproule, the named inventor of the '244 patent, conceived of this idea in 1989, that the invention was ready for patenting when detailed frame drawings were prepared in March 1990 and a physical prototype was built in March - April 1990, and that the product thus had been invented by Sproule at least by early 1990.

The patent was applied for on January 3, 1991, and it issued on November 12, 1991 (*id.* 5a).

4. In affirming a finding that the '244 patent could not be enforced, the Federal Circuit held that GFI had engaged in "inequitable conduct" because it had not disclosed to the patent examiner its knowledge of certain activity by Walter Durling, a furniture designer (*id.* 5a, 9a-10a).

Durling had designed and built a loveseat-like unit consisting of two recliners joined by a middle console (*id.* 5a). After Durling saw GFI's product at a furniture show on October 17, 1990 (*id.* 30a-31a), he showed a model of his furniture to GFI in late October or early November 1990 (*id.* 5a).

On November 5, 1990, Durling filed a patent application, which did not specify the location of the recliner controls, on his design (*id.* 5a, 28a-29a). A copy of the application was sent to GFI and there were negotiations to assess the need for a license from Durling (*id.* 11a), during which GFI asked Durling to provide documentation that would provide and support his dates of conception and reduction to practice. GFI did not receive that information, however, because Durling would not provide it unless he received similar information from GFI (*id.* 5a).

As GFI had no reason at the time (or at any time since) to believe that the Durling design was prior art, during the prosecution of the '244 patent no disclosure was made to the PTO that Durling had designed a sofa or filed a patent application.

5. At trial, GFI contended that Durling's products were constructed only after the invention by Sproule, and thus under Section 102 his activity was not prior art to the '244 patent. GFI also argued that since the Durling activity was not prior art the patent examiner could not and would not

have considered it in determining patentability and thus there was no requirement that it be disclosed to the PTO.

The issue of priority of invention was argued at trial, but "[t]he district court made no finding as to priority," and the Federal Circuit ruled that "we will not make that determination in the first instance on appeal" (*id.* 9a). Thus, both the district court and the Federal Circuit necessarily assumed, at least for purposes of deciding whether the Durling activity was relevant, that the activity occurred after the Sproule invention and thus was not prior art (*id.*)

The Federal Circuit held that because the Durling activity had a high degree of similarity to the invention sought to be patented, it had to be disclosed to the examiner even if it was not prior art. (*id.*).

However, even if the activity were so similar to the invention as to be identical, if it is not prior art there would be no reason why the examiner would consider it in deciding whether to allow the claims of the patent to issue.

REASONS FOR GRANTING THE WRIT

I. The Decision Is Inconsistent with an Unbroken Line of Previous Decisions of this Court.

This decision reverses the settled expectations of patent owners and the patent bar. It does so without any prior notice, contrary to this Court's recent pronouncement in *Festo Corp.* v. *Shoketsu Kinzoku Kogyo Kobushiki*, 122 S. Ct. 1831 (May 28, 2002) that the Federal Circuit should not so act. In *Festo*, this Court admonished the Federal Circuit - as it had done before in *Warner-Jenkinson Co.* v. *Hilton Davis*

Chemical Co., 520 U.S. 17, 28 (1997)[2] - that "courts must be cautious before adopting changes that disrupt the settled expectations of the inventing community." 122 S. Ct. at 1841. "Fundamental alterations in these rules," this Court continued, "risk destroying the legitimate expectations of inventors in their property." *Id.* Here, the Federal Circuit has ignored a consistent line of its own precedents as well as this Court's. It has - without warning to the patent bar or holders of patent rights - broadened the category of information the nondisclosure of which can render a patent unenforceable. It has expanded that category from material prior art to immaterial, non-prior art, casting a shadow of doubt and confusion over the patent property rights of literally millions of patent owners. The "plague" (as the Federal Circuit itself has called it) of inequitable conduct claims, which undermine the certainty of patent enforceability, now risks infecting any patent portfolio in which counsel failed to disclose something that legally could not have made a difference to patentability even if it had been disclosed.

This Court has, on several previous occasions, dealt with the issues of relevance and materiality in determining whether a patent would be unenforceable. Most notably, in *Corona Cord Tire Co.* v. *Dovan Chemical Corp.*, 276 U.S. 358 (1928), it was charged that a patent had been secured by "false evidence." During the prosecution of the patent, the patentee had filed affidavits describing the use of the invention in the vulcanization of rubber. The affidavits had stated that

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[2] In *Warner-Jenkinson*, 520 U.S. at 32, this Court noted that "[t]o change so substantially the rules of the game now could very well subvert the various balances the PTO sought to strike when issuing the numerous patents which have not yet expired and which would be affected by our decision."

the invention had proved to be "highly efficient in the actual vulcanization of rubber goods such as hose, tires, belts, valves and other mechanical goods." *Id.* at 373-74. However, contrary to the affidavits, the only rubber that had actually been made had been test slabs, rather than rubber goods.

In *Corona*, it had been argued that the false statement should render the patent unenforceable, but this Court, despite describing the affidavit as "perhaps reckless," *id.* at 374, rejected that argument because the nature of the products that were vulcanized (test slabs versus rubber goods) was neither the basis for the patent nor "essentially material to its issue."

By contrast, in *Keystone Driller Co.* v. *General Excavator Co.*, 290 U.S. 240 (1933), this Court upheld a judgment of unenforceability of several patents because of unclean hands where the patentee had filed an application for one of the patents without disclosing that he had learned of a prior use and had made arrangements with the individual involved in the prior use to keep secret the details of the prior use and to suppress the evidence. This Court found this "reprehensible" conduct sufficiently connected with all of the patents in suit and with the litigation to justify dismissal.

Similarly, in *Hazel-Atlas Glass Co.* v. *Hartford Empire Co.*, 322 U.S. 238 (1944), this Court held that a patent would be unenforceable where the patent owner had fabricated an article in a trade journal lauding an invention and had submitted it to the PTO in a successful attempt to get the PTO to grant the application. The article had also been submitted by the patent owner in litigation on the patent.

Also, in *Precision Instrument Mfg. Co.* v. *Automotive Maintenance Mach. Co.*, 324 U.S. 806 (1945), this Court

held unenforceable patents where the patent owner had not disclosed to the PTO that one of the patents had been based on false data and that perjured testimony had been given in an interference proceeding leading to another patent.

The conduct at issue here was not malfeasance such as was described in *Keystone*, *Hazel-Atlas*, or *Precision Instruments*, nor did it even come close to the false statement in the affidavits in *Corona* which this Court found would not prevent enforcement because it would not have affected the issuance of the patent. Here, the challenged conduct is simply a nondisclosure of immaterial art - matter that likewise would not have affected the issuance of the patent. Here, the information was unusable by the PTO because it was about activity that occurred after Sproule's invention date, and thus was not prior art.

To render otherwise valid patent rights unenforceable in these circumstances goes far beyond anything this Court has ever endorsed.

II. The Decision Also Contradicts an Unbroken Line of the Federal Circuit's Own Precedent Holding That Information of this Type Is Irrelevant and Thus Need Not Be Disclosed.

A holding of inequitable conduct requires that there be a threshold finding of materiality. If that threshold is not met, that is the end of the inquiry - there need be no evaluation of the patentee's "intent," nor would the court conduct a weighing of the relative evidence of each. Although both the district court and the Federal Circuit presumed that the Durling activity was not prior art, the Federal Circuit concluded that the existence of a "potential priority conflict," *id.* at 10a, was itself material, even if there was no actual

conflict because the ostensibly conflicting activity occurred after invention by the patentee. That holding was contrary to eight previous Federal Circuit cases where such potential conflicts had been held not to be material where the supposedly conflicting activity was not proven to be prior art.[3]

Accordingly, this surprise decision reverses the settled expectations of patent holders and patent practitioners, contrary to *Festo*. It does so, moreover, in support of a defense ("inequitable conduct") the too frequent assertion of which the Federal Circuit and other courts have rightly and repeatedly called a "plague" on the patent enforcement system. It turns a narrow equitable doctrine (patents procured through deliberate withholding of material prior art cannot be enforced) into a vast and vague loophole (withholding immaterial information that could not affect that patent's validity might make the patent unenforceable), contrary to the plainly stated Congressional intent that inventors "shall be entitled to a patent" unless a statutory exception applies. Section 102. Few patent owners today can rest assured that they and their counsel did not withhold immaterial, non-prior art.

In *Life Technologies, Inc.* v. *Clontech Laboratories, Inc.*, 224 F.3d 1320 (Fed. Cir. 2000), there was certainly a "potential priority conflict," the standard the Federal Circuit has adopted in the case at bar. Before the patent application had been filed, one of the patentees had a telephone conversation with Goff, an unrelated researcher, in which

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[3] In *Nelson* v. *Adams USA, Inc.*, 529 U.S. 460, 467 (2000), this Court, in reversing the Federal Circuit, noted that the decision being reviewed had been inconsistent with a previous decision of the Federal Circuit.

Goff claimed to have developed products similar to those developed by the patentees. The patentees then learned that Goff had publicly presented his research at Stanford University, and they surmised, based on conversations with colleagues, that Goff had demonstrated "similar results" to what they had achieved. Learning this prompted the patentees to initiate the process for preparing a patent application. The patentees then filed and pursued to issuance an application without revealing their knowledge of Goff's work. *Id.* at 1323.

There was clearly a "potential [if not an actual] priority conflict," because the district court, like the Federal Circuit here, held that the information about Goff was material because it "indicated" that Goff was a prior inventor. In *Life Technologies*, however, the court reversed because the inventors did not have the details "required for the Examiner to consider whether Goff was a prior inventor," *id.* at 1327, including, among other things, the dates when Goff's results were achieved. *Id.* ("[T]his information lacks the specificity and definiteness required to support a patentability rejection under 35 U.S.C. §102(g)"). Precisely the same was true here.

Similarly, in *Hebert* v. *Lisle Corp.*, 99 F.3d 1109 (Fed. Cir. 1996), there was also a potential priority conflict. While his patent application was pending, Hebert submitted his invention to Lisle for possible manufacture. In response, Lisle sent Hebert a letter stating that "over the years twelve (12) other inventors had sent in a very similar tool idea.... Several years ago [which would have been before filing of Hebert's application] we made prototypes and gave them to area garages to see if these tools would work very well." *Id.* at 1112-13. A second letter was then sent from Lisle to Hebert repeating the statement that he was "not the first

inventor." *Id.* at 1113. Finally, Hebert was sent a third letter from Lisle with the statement,

> I also note that in 1987 you were put on notice of significant prior art relating to [your] invention. You were specifically advised of twelve other inventors who developed tools which appear to constitute prior art. You were also advised that Lisle Corporation made prototypes for such products and distributed them within the United States. I must only presume that you provided all this prior art information to the U.S. Patent Office.

Id. After receiving evidence that none of these letters was disclosed to the PTO, a jury found the patent unenforceable for inequitable conduct and the district court denied post-trial motions.

That notice of this potential prior inventive activity had been given to the patentee did not stop the Federal Circuit from reversing the judgment of unenforceability. The court excused Hebert's failure to bring these letters to the attention of the PTO because he had not been given conclusive information that any of the earlier submissions to Lisle were, in fact, prior art and there was thus an "absence of any evidence that Mr. Hebert possessed information about prior art." *Id.* at 1115. Here, likewise, GFI lacked conclusive evidence - or indeed any evidence - that Durling's art was prior. He had refused to provide his alleged evidence, and consequently GFI had nothing to submit to the PTO that it could have considered or given any weight to.

In *Hebert*, after noting that an expert witness had testified at trial that this potential priority conflict had to be

reported to the Examiner because "[i]t doesn't matter whether or not the applicant was uncertain whether it was really prior art" and it didn't matter whether Hebert acted in good faith, the court stated flatly, "These were not correct statements of law." *Id.*

Another "potential priority conflict" was presented in *Kimberly-Clark*, 745 F. 2d at 1444-45, where the district court had found that there had been "fraud on the Patent Office" because the applicant had not disclosed to the examiner, among other things, an earlier in-house experiment at Kimberly-Clark conducted by Carolyn Mobley, of which the applicant had been aware. The Federal Circuit held that the Mobley experiments were not prior art because they had not been shown sufficiently successful to be considered a reduction to practice. Having determined that Mobley's work was not prior art, the court then found that the failure to disclose it could not support an inequitable conduct ruling.

Another case reinforcing this same point, *Northern Telecom, Inc.*, 908 F. 2d at 940, flatly held, with little discussion: "Since the Viatron 21 device was not prior art, it was not material to patentability."

Likewise, in *Environmental Designs, Ltd.* v. *Union Oil Co.*, 713 F. 2d 693, 698 (Fed. Cir. 1983), the court stated that there was no duty to bring to the attention of the PTO a disclosure of a conception by another, stating summarily: "[t]he disclosure not being prior art, it would not have been material to [ ] patentability."

Three other Federal Circuit cases further confirmed the lack of any obligation to disclose information on activity that was not prior art, and, for that reason, would not affect patentability. In those cases, the issue was not a potential

priority conflict, but a potential statutory bar under Section 102(b). The principle, however, was the same.

In *Hupp* v. *Siroflex of America, Inc.*, 122 F. 3d 1456 (Fed. Cir. 1997), it was argued that the patentee should have told the patent examiner of the submission of sketches of various designs to a third party more than a year before the patent's filing date. The defendant argued that even if the submission were not an on-sale event (which could have resulted in a Section 102(b) statutory bar) it should have been presented to the patent examiner so that the examiner could decide whether it was such an event. The Federal Circuit rejected this theory in no uncertain terms: "There is no obligation to present the examiner with information that is not material to patentability, on pain of loss of patent rights based on equitable conduct." *Id.* at 1466.

In *Allied Colloids Inc.* v. *American Cyanamid Co.*, 64 F. 3d 1570 (Fed. Cir. 1995), the district court had held a patent unenforceable for inequitable conduct because the patentees had not told the PTO of testing activity that had been referred to by their British patent attorney as "commercial sampling." The district court "apparently concluded" that if the plaintiff's British patent attorney believed that there was a public use bar under United States law, they should have told the PTO about the activity. *Id.* at 1577. The Federal Circuit, however, held that a public use bar was not supportable on the evidence that was adduced. Solely on the basis that there was no actual public use, the court held that "the failure to tell the examiner about this purported bar cannot be deemed material and culpable." *Id.* at 1578.

In *Reactive Metals Alloys Corp.* v. *ESM, Inc.*, 760 F. 2d 1578 (Fed. Cir. 1985), the Federal Circuit ruled that there

was no obligation to disclose to the examiner sales activity that had occurred after the critical date. In so doing, the court reversed a trial court's assumption

> that it is incumbent upon an applicant or its attorney to disclose to the PTO all use activities which occurred prior to the application date so that the PTO examiner can decide whether such activities amount to a public use or on-sale time bar under §102(b). No precedent of this court or of any other circuit supports this broad proposition.

Id. at 1583.

The above eight cases are all directly contrary to the decision here. In six[4] of them, the Federal Circuit went so far as to reverse determinations by the trial court of inequitable conduct, basing its reversal, in whole or in part, on the principle that the existence of activity that turned out not to be prior art cannot, for that reason, have been material and need not have been disclosed. It was plainly a "settled expectation" of the inventing community "that immaterial disclosures need not be made to the PTO on pain of patent unenforceability."

The decision here stated that information need not be prior art to be material. To be sure, there are cases where information may be important to an examiner for reasons

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[4] In *Environmental*, the court affirmed a decision of no inequitable conduct. In *Reactive Metals*, the discussion occurred in the context of whether the patentee's conduct rendered the case exceptional for purposes of awarding attorney's fees.

other than a potential effect on the novelty (Section 102) or nonobviousness (Section 103) of the claims being sought. For example, if information "could serve as the basis of a double-patenting rejection" (i.e., a rejection because the applicant would obtain two patents on the subject of the claim), such as in *Akron Polymer Container Corp.* v. *Exxel Container, Inc.*, 148 F.3d 1380, 1382 (Fed. Cir. 1998) - the only case cited on this point[5] by the Federal Circuit - it may need to be disclosed. In that case, the owner of a patent application failed to disclose a pending *commonly owned* application. Because the importance of the application to the examiner did not depend on whether it was prior art, in that narrow context that decision observed "materiality is not limited to prior art." That holding is irrelevant to the present case, since an application filed by an unrelated inventor, such as Durling, could not support a double-patenting rejection.

In short, the sole basis on which the Durling activity at issue here could have been relevant would have been as prior art. Yet the district court and Federal Circuit presumed it not to be "prior." Their legal conclusion that nondisclosure of nonprior art can be inequitable conduct is a breathtaking departure from settled expectations.

The lack of standards and identifiable limits on the doctrine of inequitable conduct has led to inconsistent decisions, lack of certainty in the patent bar, and a "plague" of inequitable conduct charges calculated to take advantage of

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[5] The decision also cited *LaBounty Mfg., Inc.* v. *United States Int'l Trade Comm'n*, 958 F.2d 1066, 1076 (Fed. Cir. 1992), but the statement quoted, that "[c]lose cases should be resolved by disclosure," was from a discussion of intent, not materiality. In that case, the withheld information was admitted to be prior art, *id.* at 1074, and held to be material.

trial court judges' unfamiliarity with patent practice. This Court is needed to provide guidance on the standards for disclosure of information the nondisclosure of which would constitute inequitable conduct in securing a patent.

III. The Decision Will Have a Material Adverse Effect on Patent Practice.

The effect of the Federal Circuit's decision will be felt within the context of this case and in patent litigation and prosecution generally.

The conflict will leave practitioners at a loss as to what to disclose, as it would appear from the decision that knowledge by an applicant of prefiling contemporaneous work by others will have to be reported, even if that work occurred later than the invention, and thus was legally immaterial. The bright line standard of precedent - that only §102 prior art could be material - had the advantages of simplicity and logic. Through its holding the decision makes nonprior activity material. This result will put significant strain on practitioners, who will be required to disclose nonprior material, and examiners, who will needlessly have to sort through nonprior material that would not and could not be considered anyway in determining patentability.

The conflict between the decision and the holding of the eight previous cases is not harmless. Without a finding of materiality, there could have been no holding that inequitable conduct occurred. *Litton Systems, Inc.* v. *Honeywell, Inc.*, 87 F.3d 1559, 1571 (Fed. Cir. 1996). If the court had followed precedent and held that because Durling was not prior art materiality had not been proven, it could not have found inequitable conduct for the nondisclosure of Durling.

The Federal Circuit decision had no alternate ground for affirmance. Although the decision separately discussed whether there had been a threshold level of intent (Pet. App. 10a-12a), a showing of intent was an additional, not an alternate, requirement to showing a threshold of materiality. In other words, if the information was not material, the reasons for not disclosing it are irrelevant. The decision also discussed the similarities between the Durling activity and the claimed invention, GFI's knowledge of the Durling references, and the unsuccessful efforts made by GFI to obtain priority information (*id.* 11a). Those facts are irrelevant to determining materiality since none of them would matter if the Durling activity was not prior art.

Unless vacated, the decision would have a profoundly unfair impact not merely on the patent owner here and its counsel, who were entitled to rely upon existing precedent and should not have been expected to anticipate this change in the standard of materiality, but also on the patent bar and holders of substantial patent portfolios generally. In conflict with eight previous Federal Circuit cases and inconsistent with this Court's precedent, the decision has held for the first time that information about activity by an unrelated party that was not prior art is information that must be disclosed. Strikingly, that holding affirmed a district court decision that had been in conflict with a prior decision of another district court that had held on the same facts that the nondisclosure of the Durling activity was not inequitable conduct. *Gentry Gallery, Inc.* v. *Berkline Corp.*, 939 F.Supp. 98, 100-01 (D. Mass 1996) (calling the question "not even close"), *rev'd in part on other grounds*, 134 F.3d 1473 (Fed. Cir. 1998). That earlier decision, and the decisions below, had all agreed on the novelty and nonobviousness of this invention. While this Court does not sit to correct mere error below, it does - and recently has - made clear that patent protection is a form of

property right key to the economy of the United States the enforceability of which should not lightly be called into question. The removal of access to a legal remedy for such property owners based on the nondisclosure of immaterial matter strikes at the foundation of this system of intellectual property rights.

Further, by broadening the standard of materiality (and thereby the standard for inequitable conduct), the decision will also encourage the "plague" of inequitable conduct charges made in patent cases. *Burlington Industries* v. *Dayco Corp.*, 849 F.2d 1418 (Fed. Cir. 1988); *Allied Colloids*, 64 F.3d at 1578. Even in cases where there would appear to have been no duty to disclose under existing law, a charge of inequitable conduct will be made in the hope that a new and broader rule of disclosure will be announced, as the decision appears to have done here.

After fifty years, Supreme Court guidance is again required to set straight the law of inequitable conduct.

CONCLUSION

For the above reasons, the Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

September 16, 2002

David Wolf
(Counsel of Record)
James J. Foster
Matthew B. Lowrie
Wolf, Greenfield & Sacks, P.C.
600 Atlantic Avenue
Boston, MA 02210
Telephone: (617) 720-3500
Counsel for Petitioner GFI, Inc.

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 00-1268, 00-1288
[Filed June 18, 2002]

GFI, INC.,
Plaintiff-Appellant,

v.

FRANKLIN CORPORATION,
Defendant-Cross Appellant,

and

WASHINGTON FURNITURE MANUFACTURING CO.,

and

ASTRO LOUNGER FURNITURE MANUFACTURING,
Defendants-Cross Appellants,

v.

PARKHILL FURNITURE, INC.,
Defendant-Appellee.

OPINION

GFI, Inc. filed a petition for rehearing en banc, and the court invited responses from the opposing parties. Parkhill Furniture, Inc., Franklin Corporation, and Astro Lounger Furniture Manufacturing each filed a response to the petition for rehearing en banc.

This matter was referred first as a petition for rehearing to the merits panel that heard this appeal. Thereafter, the petition for rehearing en banc and responses were referred to the circuit judges who are in regular active service.

Upon consideration thereof,

IT IS ORDERED THAT:

(1) The petition for rehearing is denied.

(2) The petition for rehearing en banc is denied.

The mandate of the court will issue on June 25, 2002.

June 18, 2002
Date

APPENDIX B

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 00-1268, 00-1288
[Filed September 7, 2001]

GFI, INC.,
Plaintiff-Appellant,

v.

FRANKLIN CORPORATION,
Defendant-Cross Appellant,

and

WASHINGTON FURNITURE MANUFACTURING CO.,

and

ASTRO LOUNGER FURNITURE MANUFACTURING,
Defendants-Cross Appellants,

v.

PARKHILL FURNITURE, INC.,
Defendant-Appellee.

Appealed from United States District Court
for the Northern District of Mississippi
Judge Glen H. Davidson

JUDGES:
Before MAYER, Chief Judge, NEWMAN and CLEVENGER, Circuit Judges.

OPINION

MAYER, Chief Judge.

GFI, Inc. (formerly known as The Gentry Gallery, Inc.) ("GFI") appeals the judgments of the United States District Court for the Northern District of Mississippi (1) holding its United States Patent No. 5,064,244 ("'244 patent") unenforceable for inequitable conduct, *GFI, Inc. v. Franklin Corp.*, 88 F. Supp. 2d 619 (N.D. Miss. 2000) (opinion and order) ("GFI III"), and (2) granting summary judgment of non-infringement of the '244 patent by Parkhill Furniture, Inc.'s ("Parkhill") model 8000 furniture, *GFI, Inc. v. Franklin Corp.*, 142 F. Supp. 2d 780 (N.D. Miss. 1999) (opinion and order) ("GFI II"). Washington Furniture Manufacturing Company ("Washington") and AstroLounger Furniture Manufacturing ("Astro") cross-appeal the judgment of the district court holding that the '244 patent was not invalid for obviousness under 35 U.S.C. § 103 (1994), GFI III; and Franklin Industries, Washington, and Astro cross-appeal the judgment of the district court (1) denying their motion for summary judgment of non-infringement under the doctrine of equivalents, *GFI, Inc. v. Franklin Corp.*, 27 F. Supp. 2d 686 (N.D. Miss. 1998) ("GFI I"), and (2) denying their summary judgment motion under 35 U.S.C. § 287 (1994). We affirm.

Background

GFI filed an application on January 3, 1991 for a patent on a sectional sofa in which a pair of reclining seats, on the same side of a wedge, is separated by a fixed console, which contains the control means for the reclining seats. GFI then filed a Petition to Make Special to expedite its consideration. After an initial rejection, GFI met with the examiner on June 12, 1991. The application issued as the '244 patent on November 12, 1991.

During the prosecution of the '244 patent, GFI entered discussions with Walter Durling, a furniture designer from Mississippi who designed and built a loveseat-like unit consisting of two recliners joined by a middle console. Durling filed a patent application on this design two months before the '244 patent application was filed. The discussions between GFI and Durling centered on extracting information from Durling regarding his conception and reduction to practice of the design. The application did not specify the location of the recliner controls, but Sproule, the named inventor of the '244 patent, saw a model of the Durling furniture in late October or early November of 1990 that had console-mounted controls. Durling offered to exchange his conception information for similar information about the conception and reduction to practice of the invention underlying the '244 patent; GFI refused. In 1997, GFI brought suit for patent infringement against Franklin, Astro, Parkhill, and Washington (collectively "Franklin"). The defenses of inequitable conduct, obviousness, laches, equitable estoppel, and patent misuse were tried to the court in a non-jury trial.

Discussion

First, we address GFI's claim that the district court forced it to disclose privileged information to Franklin. We apply regional circuit law to procedural questions that are not themselves substantive patent law issues so long as they do not (1) pertain to patent law, *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1365, 57 U.S.P.Q.2D (BNA) 1635, 1637 (Fed. Cir. 2001) ("We will apply our own law to both substantive and procedural issues 'intimately involved in the substance of enforcement of the patent right'" (citation omitted)), (2) bear an essential relationship to matters committed to our exclusive control by statute, or (3) clearly implicate the jurisprudential responsibilities of this court in a field within its exclusive jurisdiction, *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1359, 50 U.S.P.Q.2D (BNA) 1672, 1675 (Fed. Cir. 1999) (en banc in relevant part). Because waiver by the disclosure of privileged material does not meet any of these criteria, we apply the law of the Fifth Circuit to our review of the district court's judgment. *Dorf & Stanton Comm., Inc. v. Molson Breweries*, 100 F.3d 919, 922, 40 U.S.P.Q.2D (BNA) 1761, 1764 (Fed. Cir. 1996).

The Fifth Circuit reviews a district court's ruling on waiver of attorney-client privilege for clear error as a question of fact, and reviews conclusions of law, de novo. *United States v. Robinson*, 121 F.3d 971, 974 (5th Cir. 1997). "It is vital to a claim of privilege that the communication have been made and maintained in confidence". *United States v. Pipkins*, 528 F.2d 559, 563 (5th Cir. 1976). A client waives the attorney-client privilege by failing to assert it when confidential information is sought

in legal proceedings. *Nguyen v. Excel Corp.*, 197 F.3d 200, 206 (5th Cir. 1999). Inquiry into the general nature of the legal services provided by counsel does not necessitate an assertion of the privilege because the general nature of services is not protected. *Id.* Further inquiry into the substance of the client's and attorney's discussions does implicate the privilege and an assertion is required to preserve it. *Id.* When a party voluntarily waives attorney-client privilege, that waiver extends to all communications pertaining to the subject matter of the communications. *Id.* at 207 (A client implicitly waives the attorney-client privilege by testifying about portions of the attorney-client communication.).

Franklin claims that GFI waived the privilege when its patent attorney testified in an earlier trial, *Gentry Gallery, Inc. v. Berkline Corp.*, 939 F. Supp. 98, 41 U.S.P.Q.2D (BNA) 1345 (D. Mass. 1996) ("Berkline"), about the privileged information and when it failed to timely submit detailed privilege logs in accordance with local rules to permit Franklin to challenge its assertion of privilege. The district court properly found that GFI waived privilege when its patent attorney testified in the Berkline litigation about his state of mind, knowledge of prior art, and communications with his client. On cross-examination, he discussed his conversations with Sproule regarding the duty of disclosure, discussions they had prior to an interview with the PTO, and various items of prior art Sproule had or had not told him about. We see no error in the district court's order to GFI to release the allegedly privileged information.

To prevail on its defense of inequitable conduct, Franklin must prove by clear and convincing evidence that

GFI withheld material information from the PTO, and the information was withheld with intent to deceive the PTO. *Purdue Pharma L.P. v. Boehringer Ingelheim GMBH*, 237 F.3d 1359, 1366, 57 U.S.P.Q.2D (BNA) 1647, 1652 (Fed. Cir. 2001) (To prove inequitable conduct in the prosecution of a patent requires evidence of affirmative misrepresentations of a material fact, failure to disclose material information, or submission of false material information, coupled with an intent to deceive.). We review the district court's ultimate determination of inequitable conduct under an abuse of discretion standard. *Kolmes v. World Fibers Corp.*, 107 F.3d 1534, 1541, 41 U.S.P.Q.2D (BNA) 1829, 1834 (Fed. Cir. 1997). "'We, accordingly, will not simply substitute our judgment for that of the trial court in relation to inequitable conduct.'" *Purdue*, 237 F.3d at 1366, 57 U.S.P.Q.2D (BNA) at 1652 (quoting *Kingsdown Med. Consultants v. Hollister*, Inc., 863 F.2d 867, 876, 9 U.S.P.Q.2D (BNA) 1384, 1392 (Fed. Cir. 1988) (en banc)).

Inequitable conduct entails a two-step analysis: first, a determination of whether the withheld reference meets a threshold level of materiality and intent to mislead, and second, a weighing of the materiality and intent in light of all the circumstances to determine whether the applicant's conduct is so culpable that the patent should be unenforceable. *Baxter Int'l, Inc. v. McGaw, Inc.*, 149 F.3d 1321, 1327, 47 U.S.P.Q.2D (BNA) 1225, 1228-29 (Fed. Cir. 1998). Both intent and materiality are questions of fact reviewed for clear error. *Id.* "The more material the omission, the less culpable the intent required, and vice versa." *Halliburton Co. v. Schlumberger Tech. Corp.*, 925 F.2d 1435, 1439, 17 U.S.P.Q.2D (BNA) 1834, 1838 (Fed. Cir. 1991). The challenged conduct must be sufficient to require a finding of

deceitful intent in light of all the circumstances. *Kingsdown*, 863 F.2d at 873, 9 U.S.P.Q.2D (BNA) at 1389.

GFI does not dispute that the five references relied upon by the district court in its inequitable conduct determination were not before the examiner, but argues that none of them were material and, in any case, that Franklin did not prove deceptive intent by clear and convincing evidence. Materiality is not limited to prior art but instead embraces any information that a reasonable examiner would be substantially likely to consider important in deciding whether to allow an application to issue as a patent. *Akron Polymer Container Corp. v. Exxel Container, Inc.*, 148 F.3d 1380, 1382, 47 U.S.P.Q.2D (BNA) 1533, 1534 (Fed. Cir. 1998). However, a patentee need not cite an otherwise material reference to the PTO if that reference is merely cumulative or is less material than other references already before the examiner. *Halliburton Co. v. Schlumberger Tech. Corp.*, 925 F.2d 1435, 1440, 17 U.S.P.Q.2D (BNA) 1834, 1839 (Fed. Cir. 1991).

The district court properly found the Durling references material because they contained the elements of two recliners joined by a middle console, albeit in a loveseat and not a sectional, and had console-mounted controls on the model viewed by Sproule. GFI argues that Durling cannot be material because it is not prior art. That is not the law, and, even if it were, the very essence of the discussions between GFI and Durling were motivated by an effort to determine priority of invention between the '244 patent and Durling's patent application. The district court made no finding as to priority and we will not make that determination in the first instance on appeal. In any case, it was incumbent on GFI to

disclose the potential priority conflict to the examiner and not to unilaterally make a determination that Durling was not prior art. *LaBounty Mfg., Inc. v. United States Int'l Trade Comm'n*, 958 F.2d 1066, 1076, 22 U.S.P.Q.2D (BNA) 1025, 1033 (Fed. Cir. 1992) (It is axiomatic that "close cases should be resolved by disclosure, not unilaterally by applicant."). Even if the prior art dispute had been resolved in the manner asserted by GFI, Durling's status as prior art is not dispositive of its materiality because a reasonable examiner would have been substantially likely to find important the two recliners separated by a center console of Durling's patent application and the center-mounted console of the Durling model viewed by Sproule prior to the filing of the application that issued as the '244 patent. The Durling references were not cumulative because no reference before the examiner disclosed this combination of required elements.

As we have noted before, the facts in inequitable conduct cases rarely include direct evidence of admitted deceitful conduct. *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1180, 33 U.S.P.Q.2D (BNA) 1823, 1828-29 (Fed. Cir. 1995). The intent element of the offense is therefore in the main proven by inferences drawn from facts, with the collection of inferences permitting a confident judgment that deceit has occurred. *Akron*, 148 F.3d at 1382, 47 U.S.P.Q.2D (BNA) at 1535. "'However, materiality does not presume intent, which is a separate and essential component of inequitable conduct.'" *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 552, 16 U.S.P.Q.2D (BNA) 1587, 1593 (Fed. Cir. 1990) (quoting *Allen Organ Co. v. Kimball Int'l, Inc.*, 839 F.2d 1556, 1567, 5 U.S.P.Q.2D (BNA) 1769, 1788 (Fed. Cir. 1988)). When examining intent to deceive, a court must weigh all the evidence, including evidence of good

faith. *Gambro Lundia AB v. Baxter Healthcare Corp.*, 110 F.3d 1573, 1580, 42 U.S.P.Q.2D (BNA) 1378, 1384 (Fed. Cir. 1997).

The strongest case for deceptive intent are the Durling references. It is undisputed that GFI was aware of the references. GFI possessed a copy of the Durling patent application (sent to it by Durling) and Sproule had seen the model with console-mounted controls prior to the filing of the '244 patent application. GFI also entered into active negotiations with Durling to obtain priority information to assess the need for a license from Durling and the ability to obtain a patent on Sproule's concept. Despite their knowledge and the discussions conducted during the pendency of the '244 patent application, no disclosure was made to the PTO. We have held deceptive intent to be shown where a patentee withheld references and made an argument for patentability that could not have been made had the art been disclosed. *LaBounty*, 958 F.2d at 1076, 22 U.S.P.Q.2D (BNA) at 1032. Here, GFI specifically distinguished the disclosed references by arguing that none of them had console-mounted controls despite Sproule's prior knowledge that Durling had built a model with center-mounted recliner controls prior to the filing of the '244 patent application. Beyond its arguments that the Durling references were not material, which we have rejected, GFI does little more than deny any intent to deceive the Patent and Trademark Office. The district court did not clearly err in finding that the threshold deceptive intent was proven by clear and convincing evidence for the Durling references.

No single factor or combination of factors can be said always to require an inference of intent to mislead. Yet a

patentee facing a high level of materiality and clear proof that it knew or should have known of that materiality, can expect to find it difficult to establish "subjective good faith" sufficient to prevent the drawing of an inference of intent to mislead. *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1257, 43 U.S.P.Q.2D (BNA) 1666, 1669 (Fed. Cir. 1997). A mere denial of intent to mislead (which would defeat every effort to establish inequitable conduct) will not suffice. *FMC Corp. v. Manitowoc Co.*, 835 F.2d 1411, 1416, 5 U.S.P.Q.2D (BNA) 1112, 1116 (Fed. Cir. 1987). We see no abuse of discretion in the district court's conclusion that GFI's conduct was sufficient to warrant a conclusion of unenforceability in light of all the circumstances, *Kingsdown*, 863 F.2d at 873, 9 U.S.P.Q.2D (BNA) at 1389, especially considering the high degree of materiality of the Durling references, *Halliburton*, 925 F.2d at 1439, 17 U.S.P.Q.2D (BNA) at 1838. Because the failure to disclose the Durling references alone supports unenforceability of the claims of the '244 patent, we need not address the remaining references. Because the '244 patent is unenforceable for GFI's inequitable conduct, we do not reach the remaining claims regarding infringement which are moot.

Conclusion

Accordingly, the judgments of the United States District Court for the Northern District of Mississippi are affirmed.

AFFIRMED

APPENDIX C

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF MISSISSIPPI,
WESTERN DIVISION

No. 3:97cv16-D-A
[Filed March 2, 2000]

GFI, INC.,	)
Plaintiff,	)
	)
v.	)
	)
FRANKLIN CORPORATION, ASTRO LOUNGER FURNITURE MANUFACTURING, PARKHILL FURNITURE, INC., and WASHINGTON FURNITURE MFG.,	)
Defendants.	)

JUDGES:
Glen H. Davidson, United States District Judge.

OPINION

GFI, Inc., owner of U.S. Patent No. 5,064,244 (the '244 patent), instituted this patent infringement action against Franklin Corporation, Astro Lounger Furniture Manufacturing, Washington Furniture Manufacturing and Parkhill Furniture, Inc. (Defendants). The Defendants raised

the defenses of inequitable conduct, obviousness, patent misuse, equitable estoppel and laches; these defenses were tried to the court from November 15 to December 10, 1999.

Having carefully considered the testimony and exhibits presented at trial along with the parties' post-trial submissions, the court finds that the Defendants have proven by clear and convincing evidence that the Plaintiff obtained the '244 patent through inequitable conduct; for that reason, the court holds that the '244 patent is unenforceable. As to the remaining issues, the court finds that the Defendants have not proven by clear and convincing evidence that the '244 patent is invalid as obvious nor have the Defendants established the defenses of patent misuse, equitable estoppel or laches by a preponderance of the evidence.

Pursuant to Federal Rule of Civil Procedure 52(a), the court issues the following findings of fact and conclusions of law.

Factual Background

GFI, Inc.(Plaintiff), formerly known as The Gentry Gallery, Inc., is a Mississippi corporation that manufactured and sold upholstered furniture in competition with the Defendants. The Gentry Gallery, Inc. was formed in the summer of 1985 by John Gentry, Glenn Terry and Billy Metts, all of whom were former employees of Benchcraft, Inc., another Mississippi furniture manufacturer. John Gentry was the President of The Gentry Gallery from its inception until 1991, when he left the company. Upon his departure, Glenn Terry was promoted to President from the position of Vice-President for Administration and Finance. Billy Metts

served as Gentry Gallery's, and later GFI's, Vice-President for Manufacturing and Product Development. James Sproule, also a former employee of Benchcraft, joined Gentry Gallery in 1988 as a sales representative; later he became GFI's Vice-President for Sales and Marketing.

On January 3, 1991, the Plaintiff filed an application with the United States Patent and Trademark Office (PTO) for a patent on a sectional sofa in which a pair of reclining seats, on the same side of a wedge, are separated by a fixed console which contains the control means for operating the reclining seats.[1] The Plaintiff then, in order to expedite consideration of the '244 application, filed a "Petition to Make Special" with the PTO on February 26, 1991.[2] *See* Ex. P-2A, pp. 35-

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[1] A sectional sofa is one that forms an L-shape. In such a sofa, the section that forms the vertex of the "L" is referred to as the wedge. Typically, the wedge is armless and forms a continuous seating surface with the pieces that abut it. According to the Plaintiff, because recliners usually had controls mounted on their arms or sides, sectional sofas were able to contain two recliners only if they were located at extreme ends of the sectional. Such an arrangement meant that the recliners faced in different directions. The '244 idea solved this supposed dilemma by mounting each recliner's controls on a console placed between the two recliners. This eliminated the need to place the recliners at opposite ends of the sectional and allowed both recliners to face in the same direction.

[2] Section 708.02 of the Manual of Patent Examining Procedure (M.P.E.P.) allows certain patent applicants to file a "Petition to Make Special" with the PTO and have their application advanced out of turn and receive expedited consideration. And, while the M.P.E.P. is not law, "it is entitled to judicial notice as an

43. On May 2, 1991, the PTO, in a written memorandum, rejected the '244 application in its entirety. Then, on June 12, 1991, the Plaintiff met with the PTO's patent examiner to discuss the application. Finally, the PTO issued U.S. Patent No. 5,064,244 (the '244 patent) to the Plaintiff on November 12, 1991; James Sproule is the named inventor and the Plaintiff is listed as the patent's owner (assignee).[3] *See* Ex. P-1.

Before the end of 1991, the Plaintiff had already sued two of its competitors for allegedly infringing the '244 patent. Peoploungers, Inc. was sued in this District; litigation against the Berkline Corporation was underway in the District of Massachusetts. Also, the '244 patent played a role in Durling v. Gentry Gallery, Inc., an action filed in this District in January 1992.[4] Noteworthy among these cases is the Berkline litigation, which reached the Federal Circuit. As part of its opinion in the Berkline case, the Federal Circuit held that twelve of the '244 patent's twenty-one claims were invalid.[5]

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official interpretation of statutes or regulations as long as it is not in conflict therewith." *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1180 (Fed. Cir. 1995).

[3] Since June of 1995, GFI's patent counsel, the Boston law firm of Wolf, Greenfield and Sacks, has owned a one-third (33%) interest in the '244 patent and all revenue derived therefrom.

[4] Cause No. 3:92cv009-S-O.

[5] A claim is a statement in a patent which describes the novel features of the invention and defines the scope of the patent's protection. An issued patent, typically a document several pages in length, contains several parts including a cover page, a written

Gentry Gallery, Inc. v. Berkline Corp., 134 F.3d 1473, 1480 (Fed. Cir. 1998). The remaining nine claims (claims 9, 10, 12-15, and 19-21 of the '244 patent) are at issue in this lawsuit.[6]

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description and one or more claims.

[6] The broadest claim being asserted in this action is Claim 12 of the '244 patent, which covers a sectional sofa comprising:

> a pair of reclining seats disposed in parallel relationship with one another in a double reclining seat sofa section, said double reclining seat sofa section being without an arm at one end whereby a second sofa section of the sectional sofa can be placed in abutting relationship with the end of the double reclining seat sofa section without an arm so as to form a continuation thereof,
>
> each of said reclining seats having a backrest and seat cushion and movable between upright and reclined positions, said backrests and seat cushions of the pair of reclining seats lying in respective common planes when the seats are in the same positions,
>
> a fixed console disposed in the double reclining seat sofa section between the pair of reclining seats and with the console and reclining seats together comprising a unitary structure, said console including an armrest portion for each of the reclining seats, said arm rests remaining fixed when the reclining seats move from one to another of their positions,

The Plaintiff filed the current action on February 11, 1997, alleging infringement of the '244 patent. Each Defendant contends (i) that the '244 patent is unenforceable because the Plaintiff procured it through inequitable conduct, (ii) that the '244 patent is invalid for obviousness under 35 U.S.C. § 103, and (iii) that it has not infringed the '244 patent. Defendant Franklin also asserts the defenses of laches and equitable estoppel; Defendant Parkhill asserts the defense of patent misuse.

The defenses of inequitable conduct, obviousness, laches, equitable estoppel and patent misuse were tried to the court in a non-jury trial from November 15 to December 10, 1999. During the trial, the court heard testimony from twenty-nine witnesses and received two hundred fifty-nine exhibits into evidence.[7]

Inequitable Conduct

Applicants for patents, including their patent attorneys, are required to prosecute patent applications in the PTO with

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> and a pair of control means, one for each reclining seat, mounted [on the console] and each readily accessible to an occupant of its respective reclining seat and when actuated causing the respective reclining seat to move from the upright to the reclined position.

(Ex. P-1, pp. 9-10).

[7] Twenty of the witnesses who testified in this sixteen day trial did not testify in the five day Berkline v. Gentry Gallery trial.

candor, good faith, and honesty. *Elk Corp. of Dallas v. GAF Bldg. Materials Corp.*, 168 F.3d 28, 30 (Fed. Cir. 1999); 37 C.F.R. § 1.56 (Rule 56). Specifically, applicants have a duty to disclose to the PTO information they are aware of that is material to the application.[8] 37 C.F.R. § 1.56(a). A person who obtains a patent after breaching this duty, by failing to disclose material information and intentionally misleading the PTO, has engaged in inequitable conduct and cannot enforce the inequitably acquired patent. *Gambro Lundia AB v. Baxter Healthcare Corp.*, 110 F.3d 1573, 1579 (Fed. Cir. 1997); *General Electro Music Corp. v. Samick Music Corp.*, 19 F.3d 1405, 1408 (Fed. Cir. 1994).

To prevail on their defense of inequitable conduct, the Defendants must prove by clear and convincing evidence that:

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[8] The duty of candor and good faith rests on the inventor, on each attorney or agent who prepares or prosecutes the application, and on every other individual who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor or the assignee. 37 C.F.R. § 1.56 (1990). In this case, James Sproule, Glenn Terry and George Greenfield, inter alia, were bound by the Rule 56 duty of candor and good faith. The court also notes that, prior to the June 1991 interview at the PTO, the contact Mr. Greenfield had with Sproule and Terry was limited to telephone conversations and written correspondence. So, while Mr. Greenfield was certainly bound by Rule 56, his communication with Sproule and Terry prior to the filing of the '244 application was somewhat limited, requiring him to rely heavily on their veracity and compliance with the duty of candor and good faith.

> the Plaintiff withheld material information from the PTO; and
>
> the information was withheld with an intent to deceive the PTO

Baxter Int'l, Inc. v. McGaw, Inc., 149 F.3d 1321, 1327 (Fed. Cir. 1998). If both of the above elements are established clearly and convincingly, the court balances materiality and intent in light of all the circumstances and determines whether the Plaintiff's conduct was so culpable that the patent should be held unenforceable. *Baxter Int'l*, 149 F.3d at 1327.

For patents prosecuted before 1992, information is considered material when there is a substantial likelihood that a reasonable examiner would have considered the information important in deciding whether to allow the application to issue as a patent. *Id.; Akron Polymer Container Corp. v. Exxel Container, Inc.*, 148 F.3d 1380, 1382 (Fed. Cir. 1998). Material information is not limited to references that qualify as "prior art." *Akron Polymer*, 148 F.3d at 1382. Nor is it necessary that the patent would not have issued but for the omission or misrepresentation. *Molins PLC*, 48 F.3d at 1179-80; *Merck & Co. v. Danbury Pharmacal, Inc.*, 873 F.2d 1418, 1420 (Fed. Cir. 1989). And if any uncertainty exists as to the materiality of a known reference, the applicant has a duty to disclose the reference to the PTO. *See Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1257 (Fed. Cir. 1997) ("It is axiomatic that close cases should be resolved by disclosure, not unilaterally by applicants."). Likewise, if the applicant is aware of facts indicating a reasonable possibility of the existence of material information, the applicant is under a duty of reasonable inquiry to ascertain

such information and disclose it to the PTO. M.P.E.P. § 2001.02.

An applicant need not, however, cite an otherwise material reference to the PTO if that reference is merely cumulative of or less material than other references already before the PTO. *Baxter Int'l*, 149 F.3d at 1328; *see University of California v. Eli Lilly and Co.*, 119 F.3d 1559, 43 U.S.P.Q.2D (BNA) 1398, 1411 (Fed. Cir. 1997) (holding that cumulative information is not material). In addition, it is of no moment how and when a reference came to the attention of the PTO, as long as the reference was before the PTO during the pendency of the application. *Molins PLC*, 48 F.3d at 1185; *Scripps Clinic & Research Found. v. Genentech, Inc.*, 927 F.2d 1565, 1582 (Fed. Cir. 1991). In other words, if the information was actually before the PTO while the application was pending, then that information cannot be deemed to have been "withheld" from the PTO. *Scripps*, 927 F.2d at 1582. As for the second element of the test for inequitable conduct -- intent to deceive the PTO -the Defendants must present clear and convincing evidence that the Plaintiff intended to deceive the PTO. *Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 541 (Fed. Cir. 1990). And, although materiality and intent are distinct elements that are individually analyzed, an omitted reference's level of materiality affects the court's analysis regarding the Plaintiff's intent in withholding that reference. Omitted references that are highly material require a lower level of intent to establish inequitable conduct, and vice versa. *Critikon*, 120 F.3d at 1256.

Because direct evidence of deceptive intent is so rarely available, intent must generally be inferred from the facts and

circumstances surrounding the applicant's overall conduct, with any evidence indicative of good faith also taken into account. *Baxter Int'l*, 149 F.3d at 1329. The requisite deceptive intent may be inferred where a patent applicant knew, or should have known, that the withheld information would be material to the PTO's consideration of the patent application. *Critikon*, 120 F.3d at 1256.

Gross negligence alone in failing to disclose material references, however, is insufficient to justify an inference of intent to deceive the PTO; clear and convincing evidence that the applicant made a deliberate decision to withhold a known material reference is required. *Baxter Int'l*, 149 F.3d at 1329. Also, the Plaintiff can rebut evidence of inequitable conduct by showing that any nondisclosed references were not material, that the Plaintiff was not aware of the nondisclosed references, that the Plaintiff did not know that the references were material or that the Plaintiff's failure to disclose the references did not result from an intent to mislead the PTO. *Elk Corp. of Dallas*, 168 F.3d at 30.

In the case *sub judice*, the court finds that the Plaintiff's failure to disclose the following material references to the PTO, coupled with the requisite intent to deceive, constituted inequitable conduct:

> (1) United States Patent No. 4,668,009 (the Talley Patent) (Ex. D-36);
>
> (2) Walter E. Durling's pending patent application (filed November 5, 1990; issued as United States Patent No. 5,106,153 on April 21, 1992) (the Durling patent application) (Ex.

D-31) and the existence of the piece of furniture claimed by Durling in that patent application as seen by the Plaintiff prior to its filing of the '244 application (the Durling Furniture) (Ex. D-13);

(3) a furniture group manufactured in 1989 by Kanowsky Furniture featuring a one-armed recliner, a console and an armless chair on one side of a wedge (the Kanowsky furniture) (Ex. D-42);

(4) a sofa manufactured in 1990 by Major Motion Furniture Company, containing side-by-side recliners separated by a fixed console and operated by arm-mounted pushbutton control mechanisms (the Major Motion furniture) (Ex. D-9); and

(5) a modular furniture arrangement manufactured by Benchcraft Furniture Company in 1985 and consisting of two handle-operated recliners separated by a matching table (the Ducks furniture) (Ex. D-141).

While the court finds that the Plaintiff's omission of the foregoing references constituted inequitable conduct, the court notes that the Plaintiff disclosed the following references to the PTO:

(1) Sectional sofas having recliners at extreme ends (as illustrated by Figure 5 of United

States Patent No. 4,740,031 - the "Rogers" patent) but not containing a console (*See* Ex. D-72);

(2) mechanisms, such as one manufactured by Super Sagless Corporation, which allow for flexibility regarding the location of a recliner's controls when that recliner is part of a sofa arrangement; and

(3) reclining sofas and loveseats (i.e., sofas and loveseats wherein one or more of the seats are recliners).

A. The Talley Patent

In May 1987, Schnadig Corporation, through its assignor Thomas Talley, obtained United States Patent No. 4,668,008 (the Talley chair). *See* Ex. D-36. The Talley chair is an armless reclining chair that is activated by a recessed pushbutton control mounted on the side rail, beneath the seat cushion. This chair is physically identical, in all pertinent respects, to the inside recliner utilized in the '244 patent save one feature -- location of the control mechanism. On the '244 patent, the inside recliner's control mechanism is mounted on the adjacent console; on the Talley chair, the recliner's control mechanism is located on top of the chair's side rail, beneath the seat cushion.

The Talley chair was clearly a material reference that should have been disclosed to the PTO during the pendency

of the '244 patent application.[9] The striking similarity between the Talley chair and the inside recliner utilized in the '244 product leaves no room for doubt -- a reasonable patent examiner would have considered the Talley chair a critically important reference in deciding whether to allow the '244 patent to issue. The Talley chair was material because it embodies one of the key elements that made up the '244 idea - an armless recliner. The fact that it was not part of a sectional arrangement with a console is of little consequence; a single reference need not anticipate all, or even any, of a purported invention's claims to be deemed material.

In light of these facts, the court finds that the Talley chair was highly material to the Plaintiff's '244 patent application. The only way the Talley chair could have been more material was if it were identical to the '244 patent's inside recliner.[10] Simply because a reference lacks one or more of the elements present in the patented item does not make it likely that a reasonable examiner would have

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[9] Indeed, the Plaintiff, in its post-trial submission, admits that the Talley patent qualifies as "uncontested prior art" and was thus material. Plaintiff's Proposed Findings of Fact, pp. 21-22.

[10] The court is aware that the Plaintiff was attempting to patent an entire sectional sofa and not solely the inner recliner element of its sofa. As the Plaintiff has repeatedly stated, however, one of the critical elements of the '244 patent is the inside armless recliner. Therefore, the existence of the Talley armless reclining chair, particularly in light of other material references such as the Kanowsky furniture, would have weighed significantly in a reasonable patent examiner's analysis regarding the merits of the '244 patent application.

considered the reference unimportant in deciding whether to allow the patent. A reference's materiality is judged based upon the overall degree of similarity between the omitted reference and the claimed invention in light of the other references before the PTO. *Baxter*, 149 F.3d at 1328.

Turning to the intent prong of the test, there is no doubt that the Plaintiff was aware of the Talley chair and its materiality to the '244 application. In August of 1987, Mr. George Greenfield, the Plaintiff's patent attorney, disclosed the Talley chair to the PTO as a reference in a patent application he prepared for another client.[11] And, as a highly experienced patent attorney, Mr. Greenfield knew, or should have known, that the Talley chair was highly material to the PTO's consideration of the '244 patent application.

In light of all the surrounding circumstances, including the Talley chair's high level of materiality, Mr. Greenfield's level of experience and familiarity with the Talley chair, and the absence of any evidence of good faith, the court finds that the Plaintiff's undisputed failure to disclose the Talley chair was clearly and convincingly a deliberate attempt to mislead the PTO. The Plaintiff has offered no evidence tending to rebut this conclusion, and no other outcome is plausible based on the evidence presented to the court. Nothing in the record indicates that this glaring omission was the result of oversight

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[11] Citing a reference in one patent application in no way lessens an applicant's subsequent duty to redisclose the reference in a later application. *See* M.P.E.P. § 2001.06(b) ("Prior art references from one application must be made of record in another subsequent application if such prior art references are material to the patentability of the subsequent application.").

or gross negligence. Notwithstanding the inherent competitive pressures of the business world and the natural desire to vanquish one's competitors, patent applicants are under a duty of candor to disclose all material references to the PTO, even when embroiled in a race to be the first to secure a patent on an item. Attempting to gain an advantage over one's business adversaries by unilaterally deciding that known material references do not have to be disclosed to the PTO during the pendency of a patent application is improper. *Critikon*, 120 F.3d at 1257.

Now that the two required elements of inequitable conduct have been proven, the court must conduct a balancing test and determine, in light of all the circumstances, whether the Plaintiff's conduct was so culpable that the '244 patent should be held unenforceable. In balancing the evidence, the court notes that the Talley chair possessed the highest degree of materiality. The Plaintiff was aware of the Talley chair and its attributes yet did not disclose it to the PTO; no credible good faith reason for this omission was offered. Moreover, Mr. Greenfield testified that he understood the difference between a material reference and a reference which qualifies as prior art and his understanding of the rule that all material references must be disclosed to the PTO.

On that note, the court wishes to make clear that materiality, by its very definition, encompasses references that may not qualify, in a given situation, as prior art. The difference between materiality and prior art is hardly esoteric in light of the rule requiring patent applicants to disclose, except as previously noted, all material references to the PTO, whether those references qualify as statutory prior art or not. Failure to disclose all material references can result in

a finding of inequitable conduct and an unenforceable patent. *Baxter Int'l*, 149 F.3d at 1327. Applicants are not to unilaterally decide, in close cases, the materiality of a reference; it is the PTO's duty, after the applicant has made all necessary disclosures, to determine if the purported invention is patentable. *Critikon*, 120 F.3d at 1257.

In short, in light of all the circumstances and surrounding facts including the demeanor and credibility of the witnesses that testified during this trial, the court, in balancing the evidence, finds that the Plaintiff engaged in inequitable conduct during the prosecution of the '244 patent by withholding the Talley patent. The Defendants have presented clear and convincing evidence that leads to this conclusion and the '244 patent is rendered unenforceable as a result of the Plaintiff's conduct.

B. The Durling Furniture and Patent Application

While the Plaintiff's nondisclosure of the Talley patent is sufficient in itself to render the '244 patent unenforceable, the court finds that the Plaintiff also committed inequitable conduct by failing to disclose the Durling patent application and Durling furniture to the PTO.

In 1990, Walter Durling, a furniture designer from Tupelo, Mississippi, designed and built a loveseat-like unit consisting of two recliners joined by a middle console. *See* Ex. D-13. He filed a patent application with the PTO on November 5, 1990, two months prior to the Plaintiff's filing

of the '244 application.[12] While Durling's patent application did not specify a location for the recliner controls, the Plaintiff undisputedly saw a model of the Durling furniture in late October or early November of 1990, prior to the filing dates of both the Durling and '244 patent applications, that had console mounted recliner controls. Additionally, prior to the '244 filing the Plaintiff was aware of, and possessed a copy of, the Durling patent application. Therefore, in order to comply with the duty of candor, the Plaintiff should have made the PTO aware of both Durling's patent application and the fact that the Plaintiff had seen the Durling furniture with console mounted controls. Both were material to the '244 application. The Plaintiff admitted that it did not, however, disclose the Durling application or the Durling furniture to the PTO during the pendency of the '244 patent application.

The Durling references were highly material to several claims of the '244 application, including Claim 12, primarily due to Durling's controls being located on the console. None of the references the Plaintiff disclosed to the PTO indicated console mounted recliner controls. While the Plaintiff did disclose a mechanism which allowed controls to be console mounted, the Durling reference was more material and was non-cumulative because it demonstrated an actual application wherein the recliner controls were console mounted.

As for the co-pending Durling patent application, the Federal Circuit has made clear that information in co-pending patent applications must be disclosed if it is material. *See*

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[12] Durling's application was approved and he was awarded U.S. Patent No. 5,106,153 on April 21, 1992. *See* Ex. D-31.

Molins PLC, 48 F.3d at 1185 (holding that duty to disclose material information includes "duty to bring to the attention of the examiner . . . information within [applicant's] knowledge as to other co-pending United States applications which are 'material to the examination' of the application in question."(quoting M.P.E.P. § 2001.06(b))).[13]

Now that the court has determined that the material Durling references were withheld from the PTO, the question is whether the Plaintiff withheld those references with the intent to deceive the PTO. No direct evidence proving that the Plaintiff withheld the Durling references with deceptive intent exists. But the fact that the Durling references possessed a high level of materiality, coupled with the Plaintiff's admitted knowledge of those references and failure to disclose them, leads the court to necessarily infer that the Plaintiff withheld the references with the intent to deceive the PTO. The Plaintiff obviously recognized the materiality of the Durling furniture as evidenced by the fact that the Plaintiff entered into frantic and heated negotiations with Durling and his patent attorney concerning the Durling furniture.[14]

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[13] This duty extends beyond an applicant simply telling the PTO about material information in other pending patent applications that the applicant himself has filed; applicants have an overriding duty to disclose "all material information they are aware of regardless of the source or how they become aware of the information." M.P.E.P. § 2001.06.

[14] These negotiations sprang from a confrontation between Durling and the Plaintiff at the October 1990 furniture market in High Point, North Carolina. On October 17, 1990, Durling visited the Plaintiff's showroom at the furniture market. When he saw the

Moreover, in light of the negotiations the Plaintiff and Durling were embroiled in shortly before the filing of the '244 application, the Plaintiff's failure to disclose the references certainly was not the result of gross negligence or oversight. Just as with the Talley patent, at the very least the Plaintiff knew that the Durling references were potentially material to the '244 application; the settled Federal Circuit rule in such cases is that an applicant must disclose such references to the PTO. *Critikon, Inc.*, 120 F.3d at 1257. At a minimum, the Plaintiff should have alerted the PTO of the existence of the Durling situation. In light of these facts, the court finds by clear and convincing evidence that the Plaintiff intentionally withheld the Durling references with the intent to deceive the PTO.

'244 arrangement the Plaintiff had on display, Durling became irate and accused the Plaintiff of stealing his idea. This led to an immediate meeting at a nearby hotel between Durling, Gentry, Sproule and Terry. During this meeting, Durling provided the Plaintiff with three sketches of the furniture arrangement he had designed. The Plaintiff agreed to pay Durling a royalty in exchange for the right to build the furniture. A written agreement was signed by both parties and Durling's sketches were attached to the agreement. *See* Ex. D-5. Negotiations then commenced between the Plaintiff's patent counsel, Mr. Greenfield, and Durling's patent attorney, Ted Hunt. These negotiations primarily revolved around determining whether Durling or the Plaintiff had an earlier date of invention; additionally, the Plaintiff was provided a copy of the Durling patent application, which had been filed on November 5, 1990. The Plaintiff proceeded to file its '244 patent application on January 3, 1991, and never mentioned any of these events to the PTO.

As for the court's weighing of materiality and intent, the court finds that, in light of all the above circumstances, the Plaintiff's conduct was so culpable in withholding the Durling references that the '244 patent should be held unenforceable.

C. The Kanowsky Furniture

In the late 1980's, Kanowsky Furniture manufactured a modular sectional furniture group that featured a recliner, a console and an armless chair on one side of a wedge. *See* Ex. D-42.

The Kanowsky furniture was material to the '244 application because it demonstrates the placement of a console between two seats on one side of a wedge in a modular sectional arrangement.[15] The PTO should have been made aware of the Kanowsky furniture because a reasonable patent examiner would consider it important in determining the patentability of the '244 idea. The Plaintiff, however, did not disclose the Kanowsky reference to the PTO.

The Kanowsky reference is of crucial importance because none of the references the Plaintiff disclosed to the PTO showed the use of a console between two seats on one side of a wedge; the disclosed references simply showed, at best, L-shaped sofas with recliners at each extreme end. Along with the Talley armless recliner and the Durling

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[15] Indeed, the Plaintiff, in its post-trial submission, admits that the Kanowsky furniture qualifies as "uncontested prior art" and was thus material. Plaintiff's Proposed Findings of Fact, p. 21.

console-mounted recliner controls, the Plaintiff's withholding of the Kanowsky reference meant that the PTO lacked information concerning the most basic elements of the '244 idea. None of the references the Plaintiff disclosed to the PTO were as material as the Kanowsky furniture, and the Kanowsky reference was not cumulative of any disclosed references.

The Plaintiff argues that, while it knew of the Kanowsky furniture, it was unaware of its materiality. This argument fails, however, in light of the fact that the Plaintiff disclosed numerous references that were less material than the Kanowsky furniture. For example, the Plaintiff disclosed reclining sofa and loveseat references to the PTO as well as modular sectional arrangements - but none of these contained a console between two seats on the same side of a wedge.

The Plaintiff's failure to disclose the Kanowsky reference is particularly disturbing when considered in light of the surrounding circumstances. The Plaintiff was all too willing to disclose references which did not contain the crucial elements of the '244 patent, but claims not to have realized the materiality of the references, such as Kanowsky, which did contain those crucial elements. If the Plaintiff withheld the most material references, such as Kanowsky, due to "not realizing that those references were material," for what reason did the Plaintiff feel compelled to disclose references which were clearly even less material?

As is the case with the Talley and Durling references, the fact that the Plaintiff knew of the Kanowsky reference's high level of materiality, yet withheld the information, leads the court to infer that the Plaintiff possessed the intent to

deceive the PTO. And, as with the other withheld references, this omission was not the result of gross negligence or oversight nor was it done in good faith. In light of all the circumstances and surrounding facts, the court finds that the Plaintiff's conduct in this regard was so culpable that the '244 patent should be held unenforceable.

D. The Major Motion Furniture

In 1990, Major Motion Furniture Company developed and displayed a furniture arrangement that contained side-by-side recliners separated by a fixed console and operated by arm-mounted pushbutton control mechanisms. *See* Ex. D-9.

The Plaintiff admits knowing of the Major Motion furniture prior to the filing of the '244 patent application. And it is clear that the Major Motion furniture was highly material to the '244 application due to Major Motion's incorporation of a fixed console between two reclining chairs. The use of a fixed console is one of the elements that the Plaintiff trumpets as being a key ingredient of the '244 invention's originality. Because the Major Motion furniture contained such a console, a reasonable patent examiner would have considered it important in connection with the '244 patent application.

The Plaintiff claims that the Major Motion reference was not material because it was a stand-alone sofa rather than a sectional. The court disagrees. References need not be anticipatory, nor nearly so, in order to be material. Moreover, the Plaintiff disclosed examples of far less material references to the PTO. The Major Motion furniture's use of a fixed console rendered it far more material to the '244 patent application than were the disclosed dual reclining sofas

without a console. The Plaintiff seems to argue that there were simply no references at all that were material to the '244 idea because no one had built an arrangement that mirrored the '244 idea. Materiality is not such a narrowly defined concept. A reasonable patent examiner would have considered the Major Motion reference important to the patentability of the '244 idea. That the Major Motion reference was not dispositive on the '244 idea's patentability in no way suggests that it was not material. *See Critikon*, 120 F.3d at 1257; *Molins PLC*, 48 F.3d at 1179-80; *Merck & Co.*, 873 F.2d at 1420.

Also at issue is whether the Plaintiff withheld the Major Motion reference from the PTO. The Plaintiff claims that the Major Motion reference was disclosed to the PTO during the June 12, 1991, interview conducted by the PTO's patent examiner and attended by Sproule and Mr. Greenfield.

The court finds that the Defendants have shown by clear and convincing evidence that the Major Motion reference was not disclosed to the PTO, during the interview or otherwise. The patent examiner prepared an "Examiner Interview Summary Record" memorializing the events that transpired during the interview. *See* Ex. P-2A, p. 69. Among the entries are the names of those attending the interview and the date the interview took place. Additionally, the examiner noted that "photos of the instant invention [i.e., the '244 idea] were shown." In the section entitled "identification of prior art discussed," however, the examiner wrote "NA." Then, two weeks after the interview, the Plaintiff sent the PTO a confirmation document, entitled an Amendment, in which the Plaintiff, *inter alia*, sought to confirm the events that transpired at the interview. *See* Ex. P-2A, pp. 55-66. In this

document, the only references the Plaintiff alleges were discussed with the examiner are sectional sofas with reclining chairs at extreme ends and reclining sofas and loveseats, arrangements the court has already credited the Plaintiff with disclosing. *See* Ex. P-2A, p. 61.

The court finds that the patent examiner's Summary Record, combined with the Plaintiff's Amendment, indicate clearly and convincingly that the Plaintiff simply showed the examiner photos of the '244 furniture while orally describing the manner in which the '244 idea is distinguishable from sectional sofas having recliners at extreme ends and from reclining sofas and loveseats, none of which utilized a console. Clearly, no other material references were disclosed at the interview; otherwise, either Mr. Greenfield or the examiner would have denoted those references in their respective versions of what transpired during the interview.

As such, the court finds that the Major Motion reference was material and was withheld from the PTO. As to intent, it is clear that the Plaintiff was aware of the Major Motion furniture and its materiality to the '244 application. And, as with the previously discussed references, the high degree of materiality possessed by the Major Motion furniture, combined with the fact that the Plaintiff was careful to disclose only those references not containing crucial elements of the '244 invention, leads the court to conclude that the Plaintiff's failure to disclose the Major Motion reference was a deliberate attempt to mislead the PTO. The Plaintiff went out of its way to disclose less material references but made a concerted effort to keep the most material items from being presented to the PTO. Such behavior was not the result of oversight or gross negligence.

In balancing the evidence, the court concludes that the Plaintiff's conduct as to the Major Motion reference was so culpable that the '244 patent should be held unenforceable. The court is led to this conclusion in light of the circumstances surrounding the application for the '244 patent. In analyzing these circumstances, the court is left with the firm and unmistakable conviction that the Plaintiff engaged in a campaign to withhold the most material references from the PTO. Not a single one of the most material references available was disclosed to the patent examiner. Instead, the Plaintiff disclosed examples of marginally material references, and vigorously distinguished the '244 idea from those references. The Defendants have clearly and convincingly proven that the PTO was not informed of the Major Motion Furniture and that the Plaintiff's failure to do so was a deliberate attempt to mislead the PTO. As such, the '244 patent is rendered unenforceable.

E. The Benchcraft Ducks Furniture

Beginning in 1985, Benchcraft Furniture Company developed and sold a modular furniture arrangement consisting of a left-arm facing reclining chair, a matching upholstered table and a right-arm facing reclining chair. *See* Ex. D-141. This Benchcraft "Ducks" furniture group was part of one of Benchcraft's best selling lines of furniture during the time that Sproule, Terry and Metts worked for Benchcraft.

The Benchcraft Ducks furniture was material because it illustrated the use of a table or console between two

reclining chairs, a key part of the '244 invention.[16] As such it was more material than the dual reclining sofas that were disclosed; none of those references contained a table or console between the reclining chairs. A reasonable patent examiner would have considered the Ducks reference important because it illustrated one step in the progression of ideas within the motion furniture industry. Disclosure of the Ducks furniture would have allowed the PTO to better understand the manner in which motion furniture design advanced over time from simple reclining sofas and loveseats to the Ducks arrangement through the Major Motion and Talley developments to pieces such as Durling's and the '244 idea. As it was, however, the Plaintiff led the PTO to believe that the '244 idea was the next step, without any intervening developments, after simple reclining sofas and loveseats. This was not a true representation of the manner in which motion furniture has evolved.

As was the case with the Major Motion furniture, the Plaintiff claims to have disclosed the Ducks furniture to the PTO during the June 12, 1991, interview. And, as with the Major Motion furniture, the Defendants have shown clearly and convincingly that the Ducks furniture was not disclosed. Neither the examiner's Summary Record nor the Plaintiff's subsequent Amendment mention the disclosure of the Ducks furniture nor, for that matter, the disclosure of any furniture containing a table or console between two reclining chairs.

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[16] Indeed, the Plaintiff, in its post-trial submission, admits that the Ducks furniture qualifies as "uncontested prior art" and was thus material. Plaintiff's Proposed Findings of Fact, pp. 21-22.

As for intent, it is the totality of the circumstances that leads to the conclusion that the Plaintiff withheld this reference in a deliberate attempt to mislead the PTO. The Plaintiff was all too quick to disclose the least material references available, while declining to reveal every single one of the most material references. Such conduct can clearly and convincingly only be the result of an intent to mislead the PTO.

In balancing the evidence, the court concludes that the Plaintiff's conduct as to the Ducks reference was so culpable as to render the '244 patent unenforceable. The Ducks furniture was more material to the '244 application than any of the references the Plaintiff disclosed to the PTO. The Ducks furniture's omission is especially troubling because Ducks is an early example of the use of a console or table between two reclining chairs and because Sproule, Terry and Metts worked at Benchcraft during the time the Ducks furniture was developed.

F. Conclusion

After balancing the materiality of the foregoing undisclosed references with the evidence regarding the intent of the individuals substantively involved in the prosecution of the '244 patent, the court finds, in light of all the surrounding circumstances, that the Defendants have shown by clear and convincing evidence that the Plaintiff committed inequitable conduct during the prosecution of the '244 patent.

As the Plaintiff made clear, three of the main elements of the '244 idea are the armless inner recliner, the fixed console, and the location of the recliner controls on the

console. The five undisclosed material references each contain at least one of these elements. The Talley patent illustrates an armless recliner appropriate for use in a sectional arrangement; the Kanowsky furniture shows a recliner-console-seat layout on the same side of a wedge as part of a sectional arrangement; the Durling furniture depicts recliner controls mounted on a console; the Major Motion furniture embodies the use of a fixed console between two reclining chairs; and the Ducks furniture is an early example of the use of a table or console between two recliners. That these references individually lack one or more elements that are present in the '244 sofa is not dispositive on the issue of materiality because such references are often combined to reject a patent application. *Baxter*, 149 F.3d at 1328. In essence, the '244 idea is to take a unit such as Kanowsky's, add a Major Motion-like fixed console, replace the Kanowsky armless inner chair with an armless inner recliner such as Talley's and, like Durling, use a Super Sagless manufactured (or similar) mechanism to mount the recliners' controls on the console. Notwithstanding the possible merits of the Plaintiff's idea, it is undeniable that the withheld references all contain material elements of the '244 idea; as such, these references should have been disclosed to the PTO.

The Plaintiff's knowledge of the materiality of the withheld references is obvious given its attempts, in its Petition to Make Special,[17] to call the PTO's attention to the fact that the disclosed references did not possess certain

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[17] Misleading statements in a Petition to Make Special can independently form the basis of a finding of inequitable conduct. *See e.g., General Electro Music*, 19 F.3d at 1410-12.

characteristics that the Plaintiff knew the withheld references did possess. For example, the Plaintiff stated in its Petition that "the references do not even disclose a pair of console-joined reclining seats." *See* Ex. P-2A, p. 40. The withheld Durling and Major Motion references, of course, disclosed just that, as the Plaintiff was well aware. Later in the Petition the Plaintiff stated that "none of the references cited particularly discloses a push button reclining control mechanism upon a console." *See* Ex. P-2A, p. 42. While this statement may be literally true in that none of the references that the Plaintiff actually disclosed had console mounted controls, the withheld Durling furniture reference did have console mounted controls, a fact the Plaintiff was aware of. Thus, while the Plaintiff restricted these statements to the references that it actually disclosed, the Plaintiff was fully aware that one or more nondisclosed references contained these very features. This type of conduct indicates a desire to mislead the PTO as to the scope of the available relevant material information.

In light of all the foregoing, the court finds that the Plaintiff's conduct, in its entirety, manifested a culpable state of mind evidencing an intent to deceive the PTO. No evidence exists tending to show that the Plaintiff had a good faith reason for withholding the references. Each of the withheld references were highly material, and the Plaintiff was acquainted with each of them. Through withholding these references, the Plaintiff ensured that the PTO would be unaware of the most material references; none of the references the Plaintiff disclosed were as material as the withheld references. While the nondisclosure of any one of these withheld references is sufficient to warrant a finding of inequitable conduct, it is the totality of the circumstances and

the Plaintiff's overall conduct that mandates the '244 patent be held unenforceable. The court has carefully considered all of the evidence and finds that the Plaintiff committed inequitable conduct of such a magnitude that the '244 patent must be held unenforceable.

Obviousness

The Defendants claim that the '244 patent is invalid as "obvious," an affirmative defense set forth in 35 U.S.C. § 103(a). This provision provides, in relevant part:

> A patent may not be obtained . . . if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.

Under 35 U.S.C. § 282, a patent is presumed valid and one challenging its validity bears the burden of proving invalidity by clear and convincing evidence. *Innovative Scuba Concepts, Inc. v. Feder Indus., Inc.*, 26 F.3d 1112, 1115 (Fed. Cir. 1994). To overcome this presumption, the Defendants must show by clear and convincing evidence that the '244 patent is invalid as obvious. *Smiths Indus. Med. Sys., Inc. v. Vital Signs, Inc.*, 183 F.3d 1347, 1356 (Fed. Cir. 1999).

The Supreme Court has explained that in determining obviousness under 35 U.S.C. § 103 (a), four kinds of factual inquiries are conducted:

> (1) the scope and content of the prior art;
>
> (2) the differences between the prior art and the claimed invention;
>
> (3) the level of ordinary skill in the field of the invention; and objective secondary considerations such as commercial success of the invention, copying of the invention by others in preference to the prior art, successful licensing of the patent within the industry and failure of others to make the invention.

Graham v. John Deere Co., 383 U.S. 1, 17-18, 86 S. Ct. 684, 693-94, 15 L. Ed. 2d 545 (1966); *See In re Dembiczak*, 175 F.3d 994, 999 (Fed. Cir. 1999) (nonobviousness is question of law based upon Graham's four factual inquiries).

For the reasons outlined below, the court finds that the Defendants have not shown by clear and convincing evidence that the '244 patent is invalid for obviousness. In the interest of brevity, the court focuses its analysis only on the dispositive aspects of the evidence that was introduced at trial.

A. The Differences Between the Prior Art and the Claimed Invention

The subject matter sought to be patented must be considered as a whole when deciding obviousness under 35 U.S.C. § 103. *Kahn v. General Motors Corp.*, 135 F.3d 1472, 1479-80 (Fed. Cir. 1998). As part of this analysis, the court must examine the specific differences between the prior art and the claimed invention to determine whether the subject

matter sought to be patented would have been obvious to the hypothetical person with ordinary skill in the pertinent art.[18]

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[18] In this case, the status of the following references as relevant prior art references is undisputed:

> sectional sofas with one-armed recliners at the extreme ends (such as those depicted in Ex. D-568 and Fig. 5 of U.S. Patent No. 4,740,031 - the "Rogers" patent, Ex. D-72);
>
> the Kanowsky furniture, a sectional sofa consisting of an outside armed recliner - console (non-permanently affixed) - armless chair arrangement on one side of the wedge (Ex. D-42);
>
> the Talley patent, an armless recliner with its recessed pushbutton control mechanism mounted under the seat cushion, on top of the side rail (Ex. D-36);
>
> the Benchcraft "Ducks" furniture arrangement, consisting of side-by-side handle-operated one-armed recliners separated by a table (Ex. D-141);
>
> furniture arrangements in which recliners are activated by push button mechanisms such as those manufactured by Super Sagless Corporation; and
>
> stand alone (non-sectional) sofas with reclining seats at each end (i.e., dual reclining sofas) (Ex. D-123).

Moreover, even if the references which the Plaintiff disputes qualify as prior art (the Durling furniture and the Major Motion

First, the court notes that, as is the case with many patents, the '244 patent represents, at its core, a fairly simple and straightforward idea. While many modern-day patents cover complex inventions springing from high technology industries, the Federal Circuit has made clear that "the patent system is not limited to sophisticated technologies [nor] opened only to those who make complex inventions . . ." *Panduit Corp. v. Dennison Mfg. Co.*, 810 F.2d 1561, 1572 (Fed. Cir. 1987). To illustrate, cases in which the invention was comparatively simple but deemed nonobvious by the Federal Circuit include *In re Dembiczak*, 175 F.3d 994 (Fed. Cir. 1999) (Halloween-style pumpkin decorated trash bag); *Al-Site Corp. v. VSI Int'l, Inc.*, 174 F.3d 1308 (Fed. Cir. 1999) (hanger tag for eyeglasses); *Arkie Lures, Inc. v. Gene Larew Tackle, Inc.*, 119 F.3d 953 (Fed. Cir. 1997) (fishing lures) ("Good ideas may well appear 'obvious' after they have been disclosed, despite having been previously unrecognized."); *In re Oetiker*, 977 F.2d 1443 (Fed. Cir. 1992) (hose clamp) ("Simplicity is not inimical to patentability."). Indeed, in the Federal Circuit's Berkline opinion, the court stated that, in reference to the '244 patent, "simplicity alone is not determinative of obviousness." *Gentry Gallery*, 134 F.3d at 1478.

In patent infringement cases where an obviousness defense is raised, the defendant usually argues that each element of the challenged patent's claims can be found in one or more of the prior art references, although not in the precise

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furniture, *inter alia*) are deemed to be prior art, the court nevertheless finds that the Defendants have not met their burden of proving obviousness by clear and convincing evidence.

combination found in the patent.[19] That all the elements of the claimed invention are found in various prior art references does not, of course, mean that the invention is obvious. Virtually all patentable inventions are drawn from combinations of known elements. *See Fromson v. Advance Offset Plate, Inc.*, 755 F.2d 1549, 1556 (Fed. Cir. 1985) ("Only God works from nothing. Men must work with old elements.").

When, as here, the party attacking the patent seeks to rely on a combination of prior art references to prove a claim of obviousness, they bear the burden of coming forward with evidence that supports the use of these prior art references in combination. *Ashland Oil, Inc.*, 776 F.2d 281 at 293; *see C.R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340, 1352 (Fed. Cir. 1998) (teaching, suggestion, or motivation to combine is an "essential evidentiary component of obviousness holding"); *Arkie Lures*, 119 F.3d at 957 ("It is insufficient to establish obviousness that the separate elements of the invention existed in the prior art, absent some teaching or suggestion, in the prior art, to combine the elements."); *Custom Accessories, Inc. v. Jeffrey-Allan Indus., Inc.*, 807 F.2d 955, 959 (Fed. Cir. 1986) (Because virtually all inventions are combinations of old elements, fact that invention at issue may be combination of known elements is irrelevant to question of obviousness.).

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[19] If all the elements of one or more of a patent's claims are found in a single prior art reference, the claim or claims are "anticipated," and thus invalid. 35 U.S.C. § 102.

In this case, the Defendants face this precise dilemma because, while the elements of the '244 idea may have been individually present in one or more prior art references, none of the references suggested combining those elements in the manner the Plaintiff combined them. While, in essence, the '244 idea may be simply to place a Talley armless recliner into a Kanowsky arrangement and use a Super Sagless-like mechanism to mount the recliners' controls on the console, the Defendants have not shown by clear and convincing evidence that any of the prior art references suggest a motivation to so combine these disparate elements.

B. Conclusion

Based on 35 U.S.C. § 103 and the Supreme Court's Graham factors, the court finds that the claims of the '244 patent are not invalid for obviousness. The Defendants have failed to demonstrate by clear and convincing evidence that the prior art, taken as a whole, would have suggested the Plaintiff's invention to one of ordinary skill in the furniture industry at the time the invention was made. Further, while several of the prior art references contained various elements of the '244 invention and were therefore material to the '244 application, the Defendants have not offered evidence showing that any of the prior art references suggested combining the elements in the manner that the Plaintiff combined those elements in a single piece of furniture.

Patent Misuse

Defendant Parkhill claims that the Plaintiff has engaged in patent misuse, an affirmative defense upon which Parkhill bears the burden of proof.

The defense of patent misuse arises from the equitable doctrine of unclean hands, and relates generally to the use of patent rights to obtain or to coerce an unfair commercial advantage. The doctrine of patent misuse forbids a patentee from taking actions that affect competition in unpatented goods or that otherwise extend the economic effect beyond the physical scope of the patent grant (by charging a royalty on goods not covered under the patent) or the temporal scope of the patent grant (by charging a royalty beyond the patent's expiration date) with anticompetitive effect. *C.R. Bard*, 157 F.3d 1340 at 1372.

Hence, the key inquiry is whether, by imposing conditions that derive their force from the patent, the Plaintiff has impermissibly broadened the scope of the '244 patent grant with anticompetitive effect. *Id.; see Virginia Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 868 (Fed. Cir. 1997) ("In application, the doctrine [of patent misuse] has largely been confined to a handful of specific practices by which the patentee seemed to be trying to 'extend' his patent grant beyond its statutory limits.").

The crux of Parkhill's charge of patent misuse appears to be that the Plaintiff attempted to broaden the physical scope of the '244 patent by licensing products which were covered by Walter Durling's '153 patent but were not covered by the Plaintiff's '244 patent. The evidence, however, suggests otherwise.

In late 1996, the Plaintiff sent letters to Parkhill, and other companies, offering to license, *inter alia*, the '244 patent and the Durling patent. Enclosed with each company's

letter was a draft license agreement.[20] *See* Ex. D-284. In response to the Plaintiff's letter, Parkhill stated that it already had a license under the '153 patent; it requested that the Plaintiff send a draft license agreement covering solely the '244 and related patents. *See* Ex. D-288. The Plaintiff agreed, and on April 14, 1997, responded that, instead of drafting another license agreement, Parkhill could simply take the original draft license agreement (Ex. D-284) and strike all references to the '153 patent. *See* Ex. D-289. Parkhill then

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[20] The court heard testimony and received exhibits attempting to shed light on the circuitous events surrounding the Plaintiff's reasoning behind its attempts, later abandoned, to license the Durling patent. It appears that, in mid-1994, Durling and the Plaintiff were mired in settlement negotiations regarding their litigation in this District. As part of those negotiations, the parties entered into an informal prospective settlement agreement, the validity of which is not an issue, on September 28, 1994. *See* Exs. D-166, D-291. Paragraph 2 of this agreement states that "Gentry [GFI] will acquire the exclusive right to sublicense the '153 patent." While the agreement was signed by all interested parties, Paragraph 2 is phrased in prospective terms and it is unclear whether the Plaintiff ever actually acquired the exclusive right to sublicense the '153 patent. It appears that it did not. In light of this, the Plaintiff's subsequent assertion of the exclusive right to sublicense the '153 patent is puzzling. Nevertheless, Durling apparently did not feel bound by the agreement; in July of 1995, he granted Parkhill a license to manufacture furniture protected by the '153 patent. *See* Ex. D-285. It was this license that Parkhill made the Plaintiff aware of in late 1996 and early 1997. The court notes that these events, while engrossing, are recounted here solely for background purposes and in the interest of completeness; they bear little relevance on the issue of whether the Plaintiff misused the '244 patent.

commenced to bargain with the Plaintiff over the financial terms of the agreement and the price the Plaintiff was seeking in return for a license of the '244 patent. *See* Ex. D-290. No agreement was ever reached between the parties.

Parkhill, had it accepted the Plaintiff's offer of April 14, 1997, would have paid the Plaintiff a royalty only on items covered by the Plaintiff's patents, and would not have paid a royalty to the Plaintiff on items covered only by the Durling '153 patent. The Plaintiff never attempted to "extend the physical scope" of the '244 patent. Parkhill was not forced to pay the Plaintiff for items covered only by the Durling patent and not covered by the '244 patent. In fact, the opposite occurred.

In light of the foregoing, the court finds that Parkhill has failed to establish that the Plaintiff engaged in patent misuse.

Laches

Laches is a long-recognized defense to a patent infringement suit that arises when a patent holder delays bringing suit to remedy an alleged wrong, which taken together with lapse of time and other circumstances, causes prejudice to the adverse party and operates as an equitable bar to the recovery of damages. *Gasser Chair Co. v. Infanti Chair Mfg. Corp.*, 60 F.3d 770, 773 (Fed. Cir. 1995). Laches focuses on the dilatory conduct of the patentee and the prejudice which the patentee's delay has caused. *Gasser*, 60 F.3d at 773. If successful, the laches defense bars relief only for damages accrued prior to suit. *Id.*

To successfully invoke laches, Franklin must prove by a preponderance of the evidence:

> (1) that the plaintiff delayed filing suit an unreasonable and inexcusable length of time after the plaintiff knew or reasonably should have known of its claim against the defendant; and
>
> (2) the delay resulted in material prejudice or injury to the defendant.

Id.; A.C. Aukerman Co. v. R.L. Chaides Constr. Co., 960 F.2d 1020, 1028 (Fed. Cir. 1992). In patent infringement cases, laches is presumed when a party has delayed filing suit for more than six years after it first becomes aware, or reasonably should have become aware, of the existence of a claim. *Aukerman*, 960 F.2d at 1028.

This presumption, or lack thereof, is a pivotal part of a court's laches analysis. If the presumption applies, a burden of production shifts onto the Plaintiff to present evidence both as to the excusability of the delay and the lack of prejudice resulting from the delay. *Id.* at 1037. When, as here, the delay has been less than six years, no presumption of laches exists. As such, no burden of production shifts onto the Plaintiff and the Defendant, who in any event would bear the ultimate burden of persuasion, must present affirmative evidence that the Plaintiff's delay was unreasonable and inexcusable and that the Defendant was materially prejudiced.

Ignoring this burden and merely attempting to discredit the reasons for delay that the Plaintiff would potentially raise,

if the presumption applied and the Plaintiff was under a burden of production to proffer an excuse, is insufficient in cases such as this where no presumption applies. *Hall v. Aqua Queen Mfg., Inc.*, 93 F.3d 1548, 1556 (Fed. Cir. 1996). In sum, a presumption of unreasonable delay arises if the delay is over six years. In that case, the delay must be excused and the Plaintiff must proffer an excuse. If the delay is not over six years, then the patentee need not excuse the delay, and the burden of going forward with the evidence remains on the laches proponent (Franklin in this case).

Here, the '244 patent was issued to the Plaintiff on November 12, 1991. The Plaintiff filed this action on February 3, 1997 - a maximum delay of five years, two months, and 22 days.

As to the first prong of this defense, unreasonable and inexcusable delay, Franklin offered no evidence whatsoever. Rather, Franklin simply pointed to the delay and attempted to discredit what it believed would be the Plaintiff's reasons for the delay. This approach overlooks the fact that Franklin bears the burden of proof on this issue and must affirmatively present evidence supporting its position. Since there is no presumption of laches here, the Plaintiff need not offer any reason for the delay. As such, the court finds that Franklin has failed to prove that any delay in bringing suit on the Plaintiff's part was unreasonable and inexcusable. Hence, Franklin's laches defense fails.

In the interest of completeness, however, the court will analyze the second element of this defense - material prejudice attributable to the Plaintiff's delay. This prejudice "may be either economic prejudice or evidentiary prejudice."

Aukerman, 960 F.2d at 1033.

Economic prejudice may arise when a defendant will suffer the loss of monetary investments or incur damages which likely would have been prevented by earlier suit. *Id.* Losses attributable to a finding of liability for infringement, however, are not sufficient to prove material prejudice; were that the case, economic prejudice would arise in every case. *Id.* Instead, the court must look for a change in the economic position of the alleged infringer during the period of delay. *Id.*

Franklin's evidence concerning any economic prejudice it suffered was scant and insufficient to show material prejudice. The only economic prejudice it alleges it suffered was the very type of loss that the Federal Circuit has made clear does not qualify -- losses attributable to a finding of liability for infringement. *See id.* As such, the court finds that Franklin did not suffer any material economic prejudice as a result of the Plaintiff's delay in bringing this action.

Evidentiary prejudice may arise by reason of a defendant's inability to present a full and fair defense on the merits due to the loss of records, the death of a witness, or the unreliability of memories of long past events, thereby undermining the court's ability to judge the facts. *Id.* Conclusory allegations that witnesses' memories have faded, or that there is missing documentary evidence are not sufficient, however, to show material prejudice. *Meyers v. Asics Corp.*, 974 F.2d 1304, 1308 (Fed. Cir. 1992). Rather, Franklin must prove that the loss of important documents or witness recollection was caused by the Plaintiff's delay and that the loss of that evidence materially prejudiced Franklin's

ability to present its case to the court. *Aqua Queen*, 93 F.3d at 1558.

Franklin's claim of evidentiary prejudice begins with the elusive "Watson Cole" file. Watson, Cole, Grindle & Watson is a patent law firm located in Washington, D.C. The Plaintiff initially hired this firm as its patent counsel regarding the '244 invention and patent application. In early October of 1990, the Plaintiff and Watson, Cole parted ways and the Plaintiff hired its current patent counsel. As is customary in such situations, Watson, Cole forwarded the information it had concerning the '244 idea to either the Plaintiff or the Plaintiff's new lawyers. It is this information that has come to be known as the Watson, Cole file. *See* Exs. D-1391, 1392, 1393.

Franklin alleges that missing from the file, as produced by the Plaintiff during discovery, is information concerning a prior art search completed by Watson, Cole. Franklin claims that it was therefore materially prejudiced and unable to present a full and fair defense during this trial because it was unable to precisely determine the prior art references uncovered by Watson, Cole.

Franklin's claim of material prejudice as to the Watson, Cole file fails for several reasons. First, Franklin has not proven that it has been materially prejudiced by its inability to locate what it believes is the entire file or that the court's ability to judge the facts has been undermined by virtue of lacking this information. Nor has Franklin proven that Watson, Cole actually provided more information to the Plaintiff than the Plaintiff produced during discovery. In light of the ample amount of evidence produced in this case, it

strains credulity to suggest that Watson, Cole uncovered prior art references more material than those that were introduced at trial. In any event, Franklin failed to convince the court that the information it seeks was actually turned over by Watson, Cole to the Plaintiff.

Next, and perhaps most significantly, Franklin has not shown that any information which may be missing from the file is missing due to any delay attributable to the Plaintiff. Indeed, Franklin's main thrust at trial regarding the file seemed to be that the documents were missing because they had been intentionally withheld, not that they were missing because of any delay. And, as the Federal Circuit has stated, it is incumbent upon Franklin to prove that the loss of any important documents was caused by the Plaintiff's delay in filing suit. *Aqua Queen*, 93 F.3d at 1558. Moreover, the court heard testimony from the former Watson, Cole attorney who worked on the case, Kevin Osborne. His testimony did not support Franklin's position regarding the Watson, Cole file. In sum, conclusory allegations of the nature presented by Franklin are grossly insufficient to show material prejudice, and Franklin has failed to prove that it suffered material evidentiary prejudice based on the events surrounding the Watson, Cole file.

The remainder of Franklin's assertions regarding material evidentiary prejudice also fall far short of the required standard set forth by the Federal Circuit. First, Franklin mentions files that belonged to the Gera design team which were not produced by the Plaintiff during discovery. In addition to the dubious relevance of these files, Franklin did not offer any proof that the Plaintiff's delay caused the loss of these files. As with the Watson, Cole file, Franklin seems to

assert that these documents were intentionally withheld, rather than stating that their unavailability was due to any delay. For both these reasons, Franklin was not materially prejudiced by the Gera files' unavailability.

Franklin also asserts that it has been materially prejudiced due to the unavailability of the Plaintiff's 1989 and 1990 telephone records. The court disagrees. Franklin's ability to present a full and fair defense on the merits was not hampered in any way by virtue of its inability to present these records to the court. The court was presented with a plethora of evidence concerning the Plaintiff's activities in 1989 and 1990 and was able to sort out those events and determine the facts as to the development of the '244 idea. As such, the court's ability to judge the facts was not undermined and Franklin suffered no material prejudice as a result of these records being unavailable.

Finally, Franklin asserted, in rather conclusory fashion, that the passage of time has degraded witness recollection concerning the events surrounding the '244 patent and, as a result, Franklin suffered material evidentiary prejudice. The court again disagrees. All of the witnesses, save one, that Franklin claims suffered from diminished recollection (Sproule, Terry, Metts, Mr. Greenfield and Byrd) testified during the Berkline trial in addition to being deposed in 1992; as such, their contemporaneous testimony was preserved and available for use during this trial. As for Wayne Byrd, the only witness listed above that did not testify in Berkline, Franklin did not suffer any material evidentiary prejudice as a result of his alleged degraded recollection because his testimony was discounted by the court due to lack of corroboration. In other words, Byrd's testimony, even if

his memory was degraded, did not damage Franklin nor prevent the court from properly judging the facts.

In sum, the court finds that Franklin has not suffered material evidentiary prejudice. The alleged lack of any documents or testimony certainly did not render Franklin unable to present a full and fair defense on the merits; the court was fully able to judge the facts based on the testimony presented at trial. Therefore, the court finds that Franklin has failed to establish its laches defense by a preponderance of the evidence.

Equitable Estoppel

Defendant Franklin Corp. has asserted an equitable estoppel defense. To prove estoppel, Franklin must show by a preponderance of the evidence:

> that the Plaintiff, through misleading conduct, led the Defendant to reasonably infer that the Plaintiff did not intend to enforce its patent against the Defendant;
>
> that the Defendant relied on that conduct; and
>
> that due to its reliance, the Defendant will be materially prejudiced if the Plaintiff is allowed to proceed with its claim.

Aukerman, 960 F.2d 1020 at 1028.

To establish equitable estoppel, Franklin must first show that the Plaintiff made misleading statements and

engaged in conduct that "supports an inference that the [Plaintiff] did not intend to press an infringement claim against" Franklin. *See id.* at 1042. Silence on the part of a patentee can constitute misleading conduct if the silence is accompanied by some other factor indicating that the silence was sufficiently misleading to amount to bad faith. *ABB Robotics, Inc. v. GMFanuc Robotics Corp.*, 52 F.3d 1062, 1064 (Fed. Cir. 1995); *Aukerman*, 960 F.2d at 1042. The most common scenario is one in which a new patentee threatens an alleged infringer with enforcement and then remains silent and fails to take action for an extended period of time. *ABB Robotics*, 52 F.3d at 1064. Here, Franklin claims that the Plaintiff's silence and inactivity led Franklin to infer that the Plaintiff would not press an infringement action against Franklin.

The court finds that Franklin has failed to establish this element of its claim. On November 12, 1991, the day the '244 patent issued, the Plaintiff sent Franklin a cease and desist letter, threatening Franklin with an infringement action. The Plaintiff then became embroiled in the Berkline and Peoplounger cases, the first of several courtroom battles concerning the '244 patent. In the midst of this litigation, on April 2, 1992, the Plaintiff sent Franklin another letter threatening an enforcement action. Then, in November 1996, the Plaintiff again contacted Franklin and offered to license the '244 patent to Franklin. The current litigation commenced in February 1997. In addition to this activity, Franklin admitted that it knew the Plaintiff would ultimately take action regarding the '244 patent and that its salesmen were being warned of forthcoming litigation. So, while Franklin was not sued until February 1997, the Plaintiff was hardly silent during the period between the '244 patent's issuance and the

commencement of the current litigation.

The court concludes that the Plaintiff's conduct during the period between November 1991 and February 1997 did not mislead Franklin into reasonably inferring that the Plaintiff did not intend to press an infringement claim. The Plaintiff here did not simply threaten action and then remain completely silent for an inordinate or misleading period of time. For this reason, as well as the previously discussed fact that Franklin cannot show any material prejudice, the claim for equitable estoppel fails.[21]

Conclusion

In sum, the court finds that the Defendants have shown by clear and convincing evidence that the Plaintiff obtained the '244 patent through inequitable conduct; for that reason, the '244 patent is rendered unenforceable. The court finds, however, that the Defendants have not proven by clear and convincing evidence that the '244 patent is invalid as obvious nor have the Defendants established the defenses of patent misuse, equitable estoppel or laches by a preponderance of the evidence. As such, those defenses fail.

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[21] The court also notes that Franklin failed to establish reliance, the second element of its equitable estoppel claim. To show reliance, Franklin "must have had a relationship or communication with the Plaintiff which lulled [Franklin] into a sense of security in going ahead with [its potentially infringing activity]." *See Aukerman*, 960 F.2d at 1043. The communications between Franklin and the Plaintiff weighed against such a finding and the court concludes that any purported reliance by Franklin upon the Plaintiff's conduct here was not reasonable.

A separate order in accordance with this opinion shall issue this day.

This the 1st day of March 2000.

Glen H. Davidson
United States District Judge

ORDER

After a bench trial and pursuant to an opinion issued this day, the court finds that

(1) United States Patent Number 5,064,244 is unenforceable due to the Plaintiff, GFI, Inc., having engaged in inequitable conduct before the United States Patent and Trademark Office in obtaining the patent;

(2) the defenses of obviousness, patent misuse, equitable estoppel and laches have not been adequately proven; and

(3) this case is CLOSED.

SO ORDERED, this the 1st day of March 2000.

Glen H. Davidson
United States District Judge

APPENDIX D

TITLE 35. PATENTS
PART II. PATENTABILITY OF INVENTIONS AND GRANT OF PATENTS
CHAPTER 10. PATENTABILITY OF INVENTIONS

35 USCS §§ 102 (2002)

§§ 102. Conditions for patentability; novelty and loss of right to patent

A person shall be entitled to a patent unless--

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

(c) he has abandoned the invention, or

(d) the invention was first patented or caused to be patented, or was the subject of an inventor's certificate, by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than twelve months before the filing of the application

in the United States, or

(e) The invention was described in--

> (1) an application for patent, published under section 122(b), by another filed in the United States before the invention by the applicant for patent, except that an international application filed under the treaty defined in section 351(a) shall have the effect under this subsection of a national application published under section 122(b) only if the international application designating the United States was published under Article 21(2)(a) of such treaty in the English language; or
>
> (2) a patent granted on an application for patent by another filed in the United States before the invention by the applicant for patent, except that a patent shall not be deemed filed in the United States for the purposes of this subsection based on the filing of an international application filed under the treaty defined in section 351(a); or

(f) he did not himself invent the subject matter sought to be patented, or

(g) (1) during the course of an interference conducted under section 135 or section 291, another inventor involved therein establishes, to the extent permitted in section 104, that before such person's invention thereof the invention was made by such other inventor and not abandoned, suppressed, or

concealed, or (2) before such person's invention thereof, the invention was made in this country by another inventor who had not abandoned, suppressed, or concealed it. In determining priority of invention under this subsection, there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.

OPPOSITION

BRIEF

Supreme Court, U.S.
FILED
OCT 18 2002
OFFICE OF THE CLERK

No. 02-450

IN THE

Supreme Court of the United States

GFI, INC.,

Petitioner,

v.

FRANKLIN CORPORATION,
WASHINGTON FURNITURE MANUFACTURING CO., INC.,
ASTRO LOUNGER FURNITURE MANUFACTURING,
PARKHILL FURNITURE, INC.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION FOR RESPONDENT FRANKLIN CORPORATION

NORWOOD ROBINSON
Counsel of Record
JOHN N. TAYLOR, JR.
STEPHEN ROBINSON
ROBINSON & LAWING, L.L.P.
Attorneys for Respondent Franklin Corporation
370 Knollwood Street, Suite 600
Winston-Salem, NC 27103
(336) 631-8500

176886

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

QUESTIONS PRESENTED

Months before it filed the application for the patent-in-suit, petitioner obtained extensive, detailed information about a rival inventor who had publicly accused petitioner of stealing his invention. At the rival's invitation, petitioner's principals inspected the rival's invention and petitioner's patent counsel was provided with a copy of the rival's patent application. Throughout the entire period that it was prosecuting the patent-in-suit, petitioner engaged in heated negotiations with the rival in which it sought to learn whether the rival was the prior inventor. However, when the rival countered petitioner's demand that he unilaterally provide his claimed date of invention and supporting evidence with an offer to simultaneously exchange such information with petitioner, petitioner refused. As a result, petitioner never learned whether the rival was the prior inventor. Petitioner did not disclose any of the information it obtained about the rival and his inventive activities to the U.S. Patent and Trademark Office during the prosecution of the patent-in-suit. The petition for writ of certiorari presents the following questions:

1. Whether the Federal Circuit correctly affirmed the trial court's ruling that petitioner committed inequitable conduct by intentionally failing to disclose its knowledge of the rival's invention and co-pending patent application.

2. Whether the Federal Circuit correctly ruled that petitioner had a duty to disclose its knowledge of the rival's inventive activities and co-pending patent application where petitioner did not know whether the rival was the prior inventor and had deliberately declined the rival's offer to simultaneously exchange dates of conception and supporting evidence.

RULE 29.6 STATEMENT

Franklin Corporation is privately held. There are no parent corporations and no publicly held companies that own 10 percent or more of its stock.

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RELEVANT REGULATORY PROVISION

Petitioner failed to identify a controlling regulatory provision. A party prosecuting a patent application in the United States Patent and Trademark Office ("PTO") is subject to a duty of candor and good faith which requires the disclosure of all information known to the applicant that is material to the examination of the patent. This duty is codified at 37 C.F.R. § 1.56 and is known to patent practitioners as "Rule 56." A breach of this duty may result in a finding of inequitable conduct. *See Critikon, Inc. v. Becton Dickenson Vascular Access, Inc.*, 120 F.3d 1253, 1257 (Fed. Cir. 1997).

The patent-in-suit issued on November 12, 1991 from an application filed on January 3, 1991. In 1991, Rule 56 contained the following provisions relevant to the matter before the Court:[1]

> (a) A duty of candor and good faith toward the Patent and Trademark Office rests on the inventor, on each attorney or agent who prepares or prosecutes the application and on every other individual who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application. All such individuals have a duty to disclose to the Office information they are aware of which is material to the examination of the application. Such information is material where there is a substantial

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1. 37 C.F.R. § 1.56 has since been revised. Whether petitioner's conduct would have been a breach of the duty imposed by the revised rule and whether the revised rule comports with the standards enunciated by the relevant Federal Circuit opinions are not issues presented by this action.

> likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent. The duty is commensurate with the degree of involvement in the preparation or prosecution of the application.

STATEMENT OF THE CASE

Contrary to petitioner's argument, the Federal Circuit's decision below did not "expand" the definition of inequitable conduct. The Federal Circuit's decision was fully in harmony with precedent and entirely appropriate on the facts proven at trial. Using as its starting point a mischaracterization of the facts proven at trial, petitioner advances a narrow, legalistic view of the patentee's duty of candor and good faith to the PTO that, by definition, is completely at odds with both the settled precedent and the principles of equity from which the defense of inequitable conduct is derived.

1. As the Federal Circuit noted in its opinion, the inequitable conduct analysis is fact-intensive.

> Inequitable conduct entails a two-step analysis: first, a determination of whether the withheld reference meets a threshold level of materiality and intent to mislead, and second, a weighing of the materiality and intent in light of all the circumstances to determine whether the applicant's conduct is so culpable that the patent should be unenforceable. Both intent and materiality are questions of fact reviewed for clear error.

Pet. App., 8a [internal quotes and citations to authority omitted]. It is therefore important to consider the trial court's factual findings in some detail.

2. Petitioner is the assignee of U.S. Patent No. 5,064,244 ("the '244 patent").[2] On March 2, 2000, the Hon. Glen H. Davidson of the United States District Court for the Northern District of Mississippi held the '244 patent unenforceable for inequitable conduct. The trial court's order followed a four week bench trial in which, during fifteen days of testimony, the court heard the testimony of twenty-nine witnesses and admitted 259 exhibits into evidence. *Id.*, 18a. The trial court found that petitioner intentionally failed to disclose five separate references to the PTO during the prosecution of the '244 patent and that each such failure was in itself sufficient to support a finding of inequitable conduct. *Id.*, 41a-42a. The trial court held that each withheld reference was necessarily material because, *inter alia*, GFI made arguments to the PTO in a petition to make special[3] that it could not have made if it had disclosed those references. *Id.*, 40a-41a. *See also LaBounty Mfg., Inc. v. United States Int'l Trade Comm'n*, 958 F.2d 1066, 1076 (Fed. Cir. 1992).

On appeal to the United States Court of Appeals for the Federal Circuit, Chief Judge H. Robert Mayer, joined by Judge Pauline Newman and Judge Raymond C. Clevenger, III, affirmed on the basis of petitioner's failure to disclose

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2. Briefly, the '244 patent claimed as its invention a sectional sofa having two side-by-side reclining seats that are separated by, and connected to, a central console with the controls for the reclining seats located on the console.

3. A petition to make special is essentially a request for expedited handling of a patient application. In this case, in order to obtain such special handling, petitioner was required to conduct a search for prior art, disclose the most relevant references and then distinguish them from its claimed invention.

information collectively referred to as the Durling references.[4] The Federal Circuit agreed that the evidence established that months before petitioner filed its patent application, it had become embroiled in an intense priority dispute with a rival furniture designer named Walter Durling. Pet. App. 5a, 11a. *See also*, *id.*, 28a-32a. Durling claimed to have been the prior inventor of a sofa that petitioner conceded was identical to its alleged invention for purposes of its appeal. *Id.*, 30a-31a, n.14. Petitioner filed a petition for rehearing en banc of this ruling. After inviting and receiving responses, the Federal Circuit denied the petition for rehearing en banc.[5]

3. Beginning nearly three months before petitioner filed the '244 patent application, and continuing until it received its notice of allowability, petitioner engaged in what the trial court accurately termed "frantic and heated" negotiations with Durling. These negotiations were directed toward extracting information from Durling about his date of conception and, if necessary, obtaining a license from him. *See id.*, 5a, 11a, 30a-31a. These negotiations followed a very public confrontation at the October, 1990 International Home Furnishings Market in which Durling claimed that he was first to conceive and build the sofa at issue and accused petitioner of stealing his invention.

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4. Because it held the evidence regarding the Durling references sufficient to support the trial court's finding of inequitable conduct, the panel held that it did not need to consider the other four references. Pet. App. 12a.

5. In the interim, counsel for petitioner represented to the court in a companion case pending in the United States District Court for the District of Montana that it did not intend to file a petition for certiorari if the Federal Circuit denied its petition for rehearing en banc. *See* Resp. App. A. Based in part upon that representation, the Montana District Court entered summary judgment against GFI.

In October, 1990, Durling gave petitioner a copy of his patent application which was filed two months before the '244 application. *See id.*, 5a, 29a. Durling also allowed petitioner's president and vice-president for product development to inspect his completed invention. *Id.*, 29a. This, too, occurred months before petitioner filed the '244 patent application. *Id.* In a letter dated October 26, 1990, George Greenfield, petitioner's patent counsel and a senior partner in the firm that has handled all of petitioner's subsequent infringement litigation, gave petitioner the following advice:

> A question exists as to whether Gentry[6] or Durling first developed their sofas. If, in fact, Durling developed his sofa before Gentry developed its sectional sofa, I have serious doubts as to whether Gentry can obtain any meaningful protection on its sectional sofa. . . . I am quite skeptical about the chances of obtaining a patent covering the Gentry furniture as I have defined it above if Durling is considered prior art.

Acting on this concern, petitioner sought to determine Durling's date of conception as part of its negotiations for a license from him. *See* Pet. App. 5a, 30a-31a. Initially, petitioner demanded that Durling unilaterally disclose this information. *Id.*, 5a. Durling countered with a proposal that he and petitioner simultaneously exchange their invention dates and supporting evidence. *Id.* Durling's apparent goal was to make it impossible for either side to manipulate its own evidence of conception and reduction to practice based

6. Petitioner changed its name from "Gentry Furniture Gallery, Inc." to "GFI, Inc." at some point after this letter was written.

upon the date disclosed by the other.[7] However, for reasons it has never adequately explained, petitioner refused Durling's offer. *Id.* As a result, although the negotiations with Durling continued throughout the time that petitioner was prosecuting the patent-in-suit, petitioner *never* learned whether Durling was the prior inventor.

However, petitioner had absolutely no information that indicated that Durling was *not* the prior inventor. Although it never learned his dates of conception and reduction to practice, petitioner did know that, as between itself and Durling, Durling had been the first to publically display, had been the first to offer his invention for sale and had been the first to file a patent application. Indeed, except for his date of invention, petitioner knew virtually everything of importance about Durling's work that it was possible to know. Petitioner had inspected Durling's prototype, had been given a copy of his patent application and knew that his application had been filed before its own. Petitioner was sufficiently concerned with the possibility that Durling might be the prior inventor that it continued to negotiate for a license from him right up until the day the PTO gave notice of its intent to issue the '244 patent.

Despite petitioner's knowledge of Durling's inventive activities, its manifest concern that he might be the prior inventor and its months of heated negotiations with him, petitioner unilaterally decided to withhold all information about Durling, his invention and his pending application from the PTO during the prosecution of the '244 application. *Id.*, 11a.

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7. Durling's caution was understandable. As the Federal Circuit has observed, inventors in priority disputes face "great temptation to perjury." *Price v. Symsek*, 988 F.2d 1187, 1194 (Fed. Cir. 1993).

At trial, petitioner contended that it was free to conceal its knowledge of Durling's invention and activities because it was not absolutely sure they were prior art. According to petitioner, because a live priority dispute with an inventor prosecuting a co-pending application before a different examiner is not specifically identified as a "prior art" event by 35 U.S.C. § 102, it is not material. On appeal, although petitioner devoted 35 pages of its principal and reply briefs and the bulk of its oral presentation to this argument, the Federal Circuit correctly held that this is not, and has never been, the law.

REASONS FOR DENYING THE PETITION

Unable to justify its misconduct under the facts proven at trial, petitioner has, at trial and on appeal, consistently attempted to assume an entirely new set of facts into existence. Contrary to petitioner's assertion at Pet. 11, the district court and the Federal Circuit did *not* assume that Durling's inventive activity occurred after petitioner's and was therefore not prior art. It cannot be emphasized strongly enough that there is absolutely nothing in the record of the trial or in the text of the district court and Federal Circuit opinions that supports petitioner's assertion. Rather, the trial and appellate courts recognized that, during the prosecution of the '244 patent, petitioner improperly equated information whose prior art status could not be determined by the applicant with information *known* not to be prior art. Under existing precedent, the former must be disclosed, the latter should not be.

Nonetheless, based upon the false assumption that its invention predated Durling's, petitioner incorrectly contends that it was found to have committed inequitable conduct for failing to disclose references that post-dated its own invention. Petitioner further contends that Federal Circuit

precedent authorizes a patent applicant to conceal a priority dispute with another applicant from the PTO if, after the concealing applicant's patent issues, no one is able to prove by clear and convincing evidence that the other inventor had priority. Petitioner's factual premise and its legal conclusion are both wrong.

This action is not worthy of certiorari because the actual holdings of the trial and appellate courts were entirely appropriate under the facts and fully consistent with prior authority. Far from disrupting settled expectations, there is no indication that the patent bar has found the inequitable conduct rulings in this case to be in any way exceptional. On the contrary, the dearth of comment in the scholarly journals and the professional press indicates that counsel for petitioner is alone in failing to grasp how the nearly obsessive concern that led petitioner to negotiate with Durling throughout the time it was prosecuting the '244 patent should necessarily have led it to disclose its knowledge to the PTO.

ARGUMENT

I. PETITIONER WAS CORRECTLY HELD TO HAVE BREACHED ITS DUTY OF CANDOR AND GOOD FAITH

Petitioner's patent was held unenforceable because petitioner breached the duty of candor and good faith during its prosecution. *See* 37 C.F.R. § 1.56 (1988). As this Court noted in *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 816 (1945) this duty is owed, not just to the PTO, but to the public.

Under the plain terms of 37 C.F.R. § 1.56, "[a] patent applicant's duty to disclose is not limited to disclosing prior art. A patent applicant must disclose any material information

to the PTO." *Critikon, supra*, at 1259. *See also Akron Polymer Container Corp. v. Exxel Container, Inc.*, 148 F.3d 1380, 1382 (Fed. Cir. 1998); *Refac Int'l, Ltd. v. Lotus Dev. Corp.*, 81 F.3d 1576, 1581-85 (Fed. Cir. 1996). Section 2004 of the Manual of Patent Examining Procedure ("MPEP") explicitly notes that inventorship disputes and co-pending patent applications can be material information that must be disclosed and Greenfield testified that he was aware of this requirement.[8]

Wholehearted and ungrudging compliance with the duty of disclosure by all patent applicants is critical to the proper functioning of the patent system. During the prosecution of a patent, the PTO may reject an application based upon a *prima facie* showing of invalidity. *See In re Piaski*, 745 F.2d 1468, 1471-73 (Fed. Cir. 1988). After it issues, however, a patent is entitled to a strong presumption of validity and enforceability that may only be overcome by clear and convincing evidence. 35 U.S.C. § 282; *Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 541 (Fed. Cir. 1990). Thus, information that a patent examiner might find sufficient to prevent a patent from issuing in the first instance may be insufficient to invalidate a patent after it issues. Accordingly, the Federal Circuit has repeatedly admonished applicants to err on the side of full disclosure, emphasizing that it is "axiomatic that close cases should be resolved by disclosure, not unilaterally by applicant." *LaBounty supra*, 958 F.2d at 1076; *Critikon* at 1257.

A patent obtained through an intentional material breach of the duty of disclosure is, and should be, held unenforceable against the public under the equitable doctrine of unclean hands.

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8. *See Critikon*, 120 F.3d at 1257 ("[A]lthough [the MPEP] does not have the force of law, [it] is well-known to those registered to practice in the PTO and reflects the presumptions under which the PTO operates.").

> A patent by its very nature is affected with a public interest. As recognized by the Constitution, it is a special privilege designed to serve the public purpose of promoting the 'Progress of Science and useful Arts.' At the same time, a patent is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope. The facts of this case must accordingly be measured by both public and private standards of equity.

Precision Instrument, 324 U.S. at 816.

Since its inception, the Federal Circuit has developed more specific rules governing the application of the doctrine of unclean hands to persons accused of breaching the duty of candor. A breach of the duty of candor deemed significant enough to render a patent unenforceable is now commonly referred to as "inequitable conduct."

> Inequitable conduct includes affirmative misrepresentation of a material fact, failure to disclose material information, or submission of false material information, coupled with an intent to deceive. One who alleges inequitable conduct arising from a failure to disclose prior art must offer clear and convincing proof of the materiality of the prior art, knowledge chargeable to the

> applicant of that prior art and of its materiality, and the applicant's failure to disclose the prior art, coupled with an intent to mislead the PTO.

Molins PLC v. Textron, 48 F.3d 1172, 1180-81 (Fed. Cir. 1995).

As was noted by Chief Judge Mayer in the opinion below,

> Inequitable conduct entails a two-step analysis: first, a determination of whether the withheld reference meets a threshold level of materiality and intent to mislead, and second, a weighing of the materiality and intent in light of all the circumstances to determine whether the applicant's conduct is so culpable that the patent should be unenforceable. Both intent and materiality are questions of fact reviewed for clear error. The more material the omission, the less culpable the intent required, and vice versa.

Pet. App. 8a-9a [internal quotes and citations to authority omitted].

Whether a reference is material is determined under a familiar standard. "Materiality . . . embraces *any* information that a reasonable examiner would substantially likely consider important in deciding whether to allow an application to issue as a patent." *Akron Polymer*,148 F.3d at 1382. [emphasis in original]. This standard is similar to that applied to persons with a legal duty of disclosure in a wide array of circumstances, ranging from the duty owed by a corporate insider to current and potential shareholders, *Basic, Inc. v. Levinson*, 485 U.S. 224, 231-32 (1988), to the duty owed by pilots and aviation mechanics to the F.A.A. to keep accurate log books, *Cassis v. Helms*, 737 F.2d 545, 547 (1984).

When this standard was applied to the facts proven at trial, petitioner was faced with a simple question: how could information that drove petitioner to engage in "frantic and heated" negotiations with Durling throughout the time the '244 patent was being prosecuted not be information that the examiner would have considered important in deciding whether to grant that patent? Unable to answer this question, petitioner has consistently tried to evade it.

II. PETITIONER HAS NEVER HAD ANY INFORMATION INDICATING THAT DURLING WAS NOT THE PRIOR INVENTOR

Petitioner contends that the trial court and the Federal Circuit both assumed, for purposes of their analyses, that the Durling information was not prior art. This is not true. Instead, both courts correctly held that, in determining whether petitioner breached the duty of disclosure, intent and materiality are not determined in hindsight. The relevant point was that petitioner did not know whether it or Durling was the prior inventor at the time petitioner was prosecuting the '244 patent. This fact was incontrovertibly established at trial by petitioner's own patent lawyer. At trial, Mr. Greenfield testified that, even as of the date of his testimony, petitioner and its lawyers still did not know whether petitioner or Durling had been the first inventor.

> Q: And I think you testified under questioning by Mr. Foster that to this day, as we sit here today, November 1999, nine years later, you still don't know Mr. Durling's conception date? Is that correct?
>
> A: That's correct.
>
> * * *

> Q: And you still don't know his reduction to practice date, do you?
>
> A: That's — well, the only date that I know is his constructive reduction to practice of the application.
>
> Q: The date of the final —
>
> A: Of his application, yes. I don't know anything other than that as to his reduction to practice.

Because petitioner did not know whether it or Durling had invented first at the time it was prosecuting the '244 patent, the trial court and the Federal Circuit both correctly held that what petitioner said it could prove with information it acquired *after* the patent issued was irrelevant.

> The district court made no finding as to priority and we will not make that determination in the first instance on appeal. In any case, it was incumbent on GFI to disclose the potential priority conflict to the examiner and not to unilaterally make a determination that Durling was not prior art.

Pet. App. 10a. This holding was entirely consistent with this Court's precedent, with Federal Circuit precedent and with the long-standing rules of equity from which the inequitable conduct defense is derived.

III. THE FEDERAL CIRCUIT'S DECISION IS CONSISTENT WITH THIS COURT'S PRECEDENT

Petitioner contends that the Federal Circuit's decision is inconsistent with four opinions of this Court. This assertion is based upon petitioner's false premise that it was found to have committed inequitable conduct through "a non-disclosure of immaterial art — matter that . . . would not have affected the issuance of the patent." Petitioner's contention that the Durling information was immaterial is an exercise in bootstrapping. According to petitioner, anything that is not prior art is not material and the Durling information was not prior art because petitioner did not know for certain whether it was prior. The entire point of the Federal Circuit's decision, however, was that petitioner's willful ignorance of Durling's invention date did not relieve petitioner of the duty of disclosure, it *triggered* it.

This holding is consistent with the four opinions of this Court cited by petitioner, *Corona Cord Tire Co. v. Dovan Chemical Co.*, 276 U.S. 358 (1928); *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240 (1933); *Hazel-Atlas Glass Co. v. Hartford Empire Corp.*, 322 U.S. 238 (1944); and *Precision Instrument*, *supra*. None of these opinions supports petitioner's contention that it was allowed to conceal the Durling information from the PTO. The Federal Circuit's decision is not "in conflict" with these four opinions, it merely applied the same rules of equity to different facts. Petitioner's argument that this Court's decisions do not control because the facts are different belies a fundamental misunderstanding of equity. As one court put it,

> Equity in its true and genuine meaning is the soul and spirit of all law, and positive law is construed by it and rational law is made by it. In this, equity is synonymous with justice. Equity depends

> essentially upon the particular circumstances of each individual case. That being so, there can be no established rules and fixed principles laid down for its application, without destroying its very existence, and reducing it to positive law. The nature of equity is to amplify, enlarge, and add to the letter of the law and *every particular case stands upon its own circumstances*. Story's Equity Jurisprudence Vol. I, Ch. 1; Chitty's Blackstone, Bk. I, Sec. 1.

Aetna Casualty and Surety Co. v. Jeppesen & Co., 440 F.Supp. 394, 403 (D. Nev. 1977) [emphasis added].

The Federal Circuit's decision was fully consistent with the principals of equity that guided the four opinions of this Court cited by petitioner. As was true in *Precision Instrument*,

> [t]he guiding doctrine in this case is the equitable maxim that "he who comes into equity must come with clean hands." This maxim is far more than a mere banality. It is a self-imposed ordinance that closes the doors of a court of equity to one tainted with inequitableness or bad faith relative to the matter in which he seeks relief, however improper may have been the behavior of the defendant. That doctrine is rooted in the historical concept of court of equity as a vehicle for affirmatively enforcing the requirements of conscience and good faith.

Precision Instrument, 326 U.S. at 815.

Petitioner's conduct in this case was every bit as egregious and as calculated as that at issue in *Keystone Driller*, *Hazel-Atlas Glass* and *Precision Instruments*. When it prosecuted the '244 patent, petitioner simply did not want to disclose the Durling information to the PTO. Petitioner's reluctance was not due to some high-minded concern about unduly burdening the examiner with irrelevant information. Petitioner did not want to disclose the Durling information because it was afraid that the examiner would act on it. By definition, petitioner's fear that the Durling information would cause the PTO to act necessarily meant that the information was material. Petitioner's reliance on a narrow statutory analysis to justify its decision to withhold the information is antithetical to the concepts of equity that underlie the defense of inequitable conduct.

IV. THE FEDERAL CIRCUIT'S DECISION IS CONSISTENT WITH ITS OWN PRECEDENT

Petitioner's studied refusal to grasp the significance of a duty of candor and good faith that is enforceable in equity is again demonstrated at Pet. 15. There petitioner contends that the Federal Circuit's opinion "turns a narrow equitable doctrine (patents procured through deliberate withholding of material prior art cannot be enforced) into a vast and vague loophole (withholding immaterial information that could not affect the patent's validity might make the patent unenforceable.)"

Petitioner's contention is entirely misconceived. The duty of disclosure is not narrow. It embraces any information the examiner would likely consider important, including active priority disputes, not just items known to be prior art. *Critikon*, 120 F.3d at 1258 ("A patent applicant's duty to disclose is not limited to disclosing prior art. A patent applicant must disclose any material information to the

PTO."); *Akron Polymer*, 148 F.3d at 1382. For an ethical patent practitioner, there is nothing vague about the scope of this duty. When in doubt, the case law has established a rule that is easy for patent practitioners to understand and apply: close cases are to be resolved in favor of disclosure. *LaBounty* at 1076; *Critikon* at 1257.

In practice, this means that if a patent applicant finds itself looking for an excuse not to disclose information and engaging in tortured statutory analysis to avoid doing so, this in itself means that the information is likely material and should be disclosed. This is not a "loophole." Instead, it is a rule intended to forestall patent applicants from trying to *create* loopholes in the duty of disclosure. This, however, is precisely what petitioner claims to have done. Specifically, petitioner in essence says it was permitted to withhold the Durling information because of a loophole in the duty of disclosure it claims to have found somewhere in the Federal Circuit opinions cited in its petition for certiorari.

According to petitioner, a patent applicant that has detailed, first-hand information about art that is highly material to the examination of its application may conceal the information from the PTO without adverse consequences if: (a) before the patent issues, the applicant takes active steps to keep itself ignorant of the art's date of invention; and (b) after the patent issues, no one can prove by clear and convincing evidence that the withheld art was prior to the patentee's invention date. The loophole that petitioner claims to have distilled from these opinions does not exist and has never existed. Petitioner has constructed its argument by pulling isolated sentences and holdings out of the opinions it cites and ignoring or distorting their factual contexts.

In *Northern Telecom v. Datapoint Corp.*, 908 F.2d 931 (Fed. Cir. 1990), the Federal Circuit simply affirmed a trial court ruling that: (a) the reference in question was not prior art; (b) the defendant had "*failed otherwise to show* by clear and convincing evidence that a reasonable examiner" would have considered it "important;" and (c) the defendant had failed to show deceptive intent. *Northern Telecom v. Datapoint Corp.* 9 USPQ2d 1577 (N.D. Tex. 1988), *aff'd in part*, 908 F.2d 931 (Fed. Cir. 1990) [emphasis added]. On appeal, the defendant did not contest the finding that the reference was not prior art but, instead of providing an alternate basis for materiality, repeatedly referred to the reference as "prior art" in arguing it should have been disclosed. 908 F.2d at 940. It was in this context that the Federal Circuit said, "[s]ince the [reference] was not prior art, it was not material to patentability." *Id.* In the present case, by contrast, the trial court and the Federal Circuit both determined that petitioner's knowledge regarding Durling was material regardless of whether it was prior art. Pet. App. 20a, 31a; *id.*, 9a-10a.

The remaining opinions cited by petitioner stand for two separate propositions. First, there is no duty to disclose information that the applicant knows or reasonably believes is not prior art at the time it is actually prosecuting the application. Second, there is no duty to disclose indefinite, non-specific hearsay about possible prior or contemporaneous inventive activity. Neither of these propositions excuses petitioner's conduct during the prosecution of the '244 patent. Greenfield admitted at trial that he did not know whether Durling or petitioner invented first and thus did not have sufficient information to determine whether the Durling references were prior art. However, other than the invention date, petitioner knew virtually everything about Durling's work it was possible to know.

A. The Federal Circuit's Decision Is Not in Conflict with Precedent Holding That There Is No Duty to Disclose References That the Applicant Knows Are Not Prior Art

In *Environmental Designs, Ltd. v. Union Oil Co.*, 713 F.2d 693 (Fed. Cir. 1983), the patentee submitted an affidavit from a co-worker attesting to the non-obviousness of his invention. The affiant had previously conceived of a process similar to the invention but had abandoned it. The affiant did not disclose this abandoned conception in his affidavit. The Federal Circuit held that since an abandoned conception is not prior art, the finder of fact could not infer that the affiant withheld information about it with deceptive intent. 713 F.2d at 698. Unlike petitioner, however, the affiant in *Environmental Designs*, and presumably the patentee (his co-worker) and their employer, could conclusively determine that the abandoned conception was not subject to the duty of disclosure.

Kimberly-Clark Corp. v. Johnson & Johnson, 745 F.2d 1437 (Fed. Cir. 1984) also involved an alleged failure to disclose in-house activity by one of the patentee's co-workers. In that case, the Federal Circuit held that although experimental work with adhesives by the co-worker (Mobely)may have constituted a conception, there had clearly been no reduction to practice because Mobely's experiments "failed to set forth a single adhesive mixture that performed with sufficient success." 745 F.2d at 1445. Under well-established principles, in the absence of a reduction to practice, the unsuccessful experiments were not prior art and were therefore not subject to the duty of disclosure. Accordingly, like the patentee in *Environmental Designs*, the patentee and his employer in *Kimberly Clark* were necessarily in a position to know for a fact that the information was not prior art and

therefore not subject to the duty of disclosure. Petitioner was not in a position to make, and did not make, a similar determination about the Durling references.

At Pet. 20, petitioner quotes a passage from *Reactive Metals and Alloys Corp. v. ESM, Inc.*, 769 F.2d 1578 (Fed. Cir. 1985)but omitted the three sentences that followed. Had petitioner done so, it would have been clear that, like *Environmental Designs* and *Kimberly-Clark*, *Reactive Metals* simply held that if the applicant is in possession of all the information necessary to determine that a reference is not prior art and is otherwise immaterial, there is no duty to disclose it.

> Underlying the trial court's decision appears to be an assumption that it is incumbent upon an applicant or his attorney to disclose to the PTO all use activities which occurred prior to the application date so that the PTO examiner can decide whether such activities amount to a public use or on-sale time bar under § 102(b). No precedent of this court or of any other circuit supports this broad proposition. ***Such activities may or may not be "material" to examination. Where commercial sales of an identical or similar product are known by the applicant to have occurred more than one year prior to filing, such product is prior art and falls within the duty of disclosure. On the other hand, there is no point in bringing sales activities to the examiner's attention which, for example, did not occur before the one-year grace period simply to have the examiner "decide" that the sales were not early enough to trigger the time bar.***

769 F.2d at 1583 [sentences omitted by petitioner emphasized].

Petitioner similarly mischaracterizes *Allied Colloids, Inc. v. American Cyanamid Co.*, 64 F.3d 1570 (Fed. Cir. 1995) by misstating its holding and ignoring its procedural posture. In *Allied Colloids* the defendant moved for judgment as a matter of law at the close of the plaintiff-patentee's case-in-chief, arguing that certain shipments of the plaintiff's product more than a year before it filed its application triggered the public use bar of 35 U.S.C. § 102(b). The district court granted the motion. 64 F.3d at 1572. The trial court then held the patents-in-suit unenforceable for inequitable conduct even though the defendant raised this issue for the first time in its motion for judgment as a matter of law. *Id.* at 1577.

On appeal the Federal Circuit reversed and remanded the finding of invalidity, holding that the plaintiff had introduced evidence from which a reasonable jury could have found that the product shipments in question were experimental and not a public use or offer of sale. *Id.* However, the court did not, as petitioner contends, categorically hold that there was no inequitable conduct "solely on the basis that there was no actual public use." Instead, the Federal Circuit ruled that, because it had held that a jury could have found that there was no public use bar, the evidence was insufficient to establish inequitable conduct on a motion for judgment as a matter of law at the close of plaintiff's case-in-chief and stated:

> In view of our holding that a public use bar is not supportable on the evidence that was adduced, the failure to tell the examiner about this purported bar cannot be deemed material and culpable *in terms of the requirements of Rule 50(a)(1)*. It is not inequitable conduct to omit telling the patent examiner information that the applicant in good faith believes is not material to patentability. *Whatever might be established upon trial of the*

> *issue is not before us*; but the predicate facts of materiality and intent cannot be inferred in the circumstances that here existed.

Id. at 1578 [emphasis added]. Thus, the Federal Circuit merely ruled that where a reasonable jury could find that there was no on-sale bar, it was quite likely, and even probable, that the patentee could also produce evidence that it *knew* there was no on-sale bar. However, because the inequitable conduct issue was not advanced until after plaintiff rested its case, it was not given the opportunity to introduce such evidence and the case was, accordingly, reversed and remanded for trial. *Id.* at 1578.

Hupp v. Siroflex of America, Inc., 122 F.3d 1456 (Fed. Cir. 1997) likewise does not support petitioner's argument. There, faulting the jury instructions, the Federal Circuit reversed a jury's finding that the patentee's submission of his idea to an invention promotion company was an event that triggered the on-sale bar. Instead, the court noted that "[a]n inventor's quest for aid and advice in developing and patenting an invention is not an on-sale event as contemplated by 35 U.S.C. § 102(b)." 122 F.3d at 1461. The Court then held that

> [s]ince the correspondence with the Invention Submission Corporation could reasonably have been believed not to start an on-sale bar, and since there was no evidence whatsoever of culpable intent in not telling the patent examiner of this correspondence, the verdict of inequitable conduct cannot be sustained on this ground.

Id. at 1465.

In all of the foregoing cases, the patent applicants had all of the information necessary to make a reasonable judgment that the information in question was not prior art. There was no third party such as Durling in sole possession of additional necessary factual information. Equally important, the court in each of these cases specifically found that there was no evidence that the patentees had acted with culpable intent. *See Environmental Designs* at 698; *Reactive Metals* at 1584; *Kimberly-Clark Corp.* at 1457; *Allied Colloids* at 1578; *Hupp* at 1466.

B. The Federal Circuit's Decision Is Not in Conflict with Precedent Holding That There Is No Duty to Disclose Information That the Applicant Does Not Have

In contrast to the foregoing cases, the patentees in *Hebert v. Lisle Corp.*, 99 F.3d 1109 (Fed. Cir. 1996) and *Life Technologies, Inc. v. Clontech Laboratories, Inc.*, 224 F.3d 1320 (Fed. Cir. 2000), were found to have had no duty to disclose because they had insufficient information of invalidating references or activities.

In *Hebert*, defendant Lisle Corp. rejected a tool design submitted by Hebert, contending that it had previously received a dozen designs for a similar tool, none of which had been favorably received by management. Lisle did not identify the alleged inventors or give any specifics about how their supposed inventions worked. 99 F.3d at 1112-13. A year and a half later, however, Lisle wrote Hebert again, telling him it had decided to market a tool similar to his. In this letter, Lisle said it "assumed" Hebert had disclosed Lisle's earlier allegation that prior art existed to the examiner of his application. *Id.* at 1115.

After Hebert's patent issued, he sued Lisle for infringement. At trial, Lisle's patent law expert admitted that he had been unable to substantiate Lisle's allegations that there were earlier inventors and inventions and "no witness, actual or proffered, filled this gap." *Id.* Nonetheless, this expert testified that "'[i]t doesn't matter whether or not the applicant was uncertain whether [the letter] was really prior art' and that it didn't matter whether Mr. Hebert acted in good faith." The Federal Circuit correctly stated that "these were not correct statements of the law" and reversed the jury's verdict that Hebert's patent was unenforceable for inequitable conduct. *Id.*

Petitioner contends that this holding means there is no duty to disclose information to a patent examiner if the applicant has any doubt about whether the information is prior art. This, too, however, is not a correct statement of the law. Rather, the Federal Circuit held that inasmuch as there was no evidence that Hebert actually possessed any information about actual inventions or inventors, "there cannot have been culpable intent in withholding information that the inventor did not have." *Id.* at 1115-16. The most Hebert could have told the examiner was that an infringer had alleged that prior art existed, but had not identified either the supposed inventors or their inventions. Because there was absolutely nothing that the examiner of Hebert's patent could have done with this information, it was, by definition, not material to patentability. By contrast, GFI knew who Durling was, knew exactly what his invention was, knew Durling claimed to have invented first, and had a copy of Durling's application which it knew had been filed before its own and was pending before another examiner.

Finally, petitioner cites *Life Technologies* in which, as in *Hebert*, the Federal Circuit ruled that the vague information possessed by the applicants was insufficient to trigger the duty of disclosure. The Federal Circuit held that, at most, the inventors could only have disclosed that Goff, a rival researcher, claimed to have achieved similar results and had presented those results at a conference, which neither inventor attended. 244 F.3d at 1327.

> [T]he inventors did not obtain any material information regarding Goff's work based on his presentation at Stanford. The inventors neither attended this presentation, nor were provided with an abstract of the presentation. They heard from colleagues that Goff presented results similar to theirs but the record does not show that the inventors learned any additional details regarding Goff's work.

Id. The Federal Circuit held this scanty information immaterial because it would have been "singularly unhelpful to the Examiner in determining whether the information was patentable." *Id.* Petitioner, by contrast, was in possession of Durling's actual patent application which was then pending before another examiner. Petitioner knew what Durling's invention did and how it did it. It is inconceivable that a reasonable examiner would not have considered the information petitioner had about Durling material to the patentability of its invention.

V. THE FEDERAL CIRCUIT'S DECISION WILL HAVE NO "ADVERSE IMPACT" ON PATENT PRACTICE

As it has done since it first filed this action in February, 1997, petitioner has made reference to Federal Circuit opinions decrying what some members of that court perceived as a "plague" of unwarranted inequitable conduct charges. The trial court and the Federal Circuit recognized that petitioner's repeated citation to these cases was a red herring. The issue in this case was not whether other parties had, in the past, brought charges of inequitable conduct that were unjustified. The issue was whether the charge was justified by the facts of this case. Both courts correctly found that it was.

It is thus noteworthy that Judge Newman joined in Chief Judge Mayer's opinion in this case. Judge Newman is probably the Federal Circuit's most consistent and outspoken critic of this perceived "plague" of unjustified inequitable conduct charges. *See, e.g., Ohio Cellular Products Corp. v. Adams USA, Inc.*, 175 F.3d 1343, 1355 (Fed. Cir. 1999), *rev'd sub nom. Nelson v. Adams USA, Inc.*, 529 U.S. 460 (2000) (Newman, J. dissenting); *Litton Systems, Inc. v. Honeywell, Inc.*, 140 F.3d 1449, 1469 (Fed. Cir.) *pet. for reh'g en banc denied* 145 F.3d 1472 (Fed. Cir. 1998) (Newman, J. dissenting in part); *Multiform Desiccants, Inc. v. Medzam, Ltd.*, 133 F.3d 1473, 1482 (Fed. Cir. 1998); *Allied Colloids, supra*, at 1578. Indeed, respondent is aware of only one other case, *Molins, supra*, in which Judge Newman voted to affirm a finding of inequitable conduct.

It is equally noteworthy that of the eight Federal Circuit cases that petitioner claims are inconsistent with the opinion in this case, Judge Newman authored three, *Allied Colloids*, *Hebert* and *Hupp*, and was on the panel in a fourth, *Northern Telecom*. Petitioner made this supposed inconsistency the centerpiece of its brief and oral argument to the Federal Circuit. Chief Judge Mayer and Judges Newman and Clevenger, however, rejected that argument. In its petition for rehearing en banc, petitioner repeated its contention that the panel's decision was inconsistent with prior authority and would have an adverse impact on the patent system. The Federal Circuit again rejected this contention.

In affirming the trial court, the Federal Circuit recognized that it was petitioner that was advocating a position that would have an adverse impact on the integrity of the entire patent system. Petitioner attempted to evade the duty of candor and good faith by contending that there is no difference between information "known not to be prior art" and information "not known to be prior art." The Federal Circuit's opinion rightly acknowledged that such sophistry is anathema to the very concepts of equity and good faith.

The panel's opinion will not, as petitioner contends, "leave practitioners at a loss as to what to disclose" and disrupt settled expectations. Ethical practitioners will continue to disclose information if, in the exercise of good faith, they believe the examiner is substantially likely to consider it important in determining whether their application should be allowed. Ethical practitioners will also continue to follow the axiom that "close cases should be resolved by disclosure, not unilaterally by the applicant." *LaBounty Mfg.* at 1076. This was the law when petitioner prosecuted its patent, it has remained the law to present day and it was not changed by the Federal Circuit's decision below.

Because patent applicants in this country are parties to *ex parte* proceedings, the integrity of the patent system and the quality of the patents that issue depend in large part upon compliance with the duty of disclosure. Petitioner, however, essentially contends that patent applicants and their lawyers should be allowed to behave as if they were advocates in an adversarial proceeding. Such a revolutionary change in the patent system would, in the absence of a massive increase in the resources allotted for the examination of patent applications by the PTO, shift a great part of the work now being done by the PTO to the courts. If the courts were forced to become the primary examiners of patent validity, the heightened burden of proof imposed by 35 U.S.C. § 282 would virtually guarantee that the public and the economy will be burdened by a flood of frivolous patents owned by people who know they should never have been allowed to issue.

CONCLUSION

The decision of the United States Court of Appeals for the Federal Circuit is legally and factually correct, is entirely consistent with precedent and is in the best interest of the public. The petition for certiorari should be denied.

Respectfully submitted,

NORWOOD ROBINSON
Counsel of Record
JOHN N. TAYLOR, JR.
STEPHEN ROBINSON
ROBINSON & LAWING, L.L.P.
Attorneys for Respondent
Franklin Corporation
370 Knollwood Street, Suite 600
Winston-Salem, NC 27103
(336) 631-8500

APPENDIX

APPENDIX A — ORDER OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF MONTANA DATED SEPTEMBER 28, 2002

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MONTANA

CV 98-143-M-DWM

GFI, INC.,

Plaintiff,

vs.

DYNASTY FURNITURE MANUFACTURING, LTD.,

Defendant.

Defendant Dynasty Furniture Manufacturing, Inc. (Dynasty) moves for summary judgment on Plaintiff GFI, Inc.'s (GFI) patent infringement claims. GFI admits that Dynasty may be entitled to summary judgment, but maintains the motion is premature pending the Supreme Court's decision on its petition for a writ of certiorari.

A party is entitled to summary judgment if it can demonstrate "that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed. R. Civ. P. 56(c). In this case, the United States District Court for the Northern District of Mississippi (the "Mississippi court") found that GFI's patent is unenforceable because it obtained it through inequitable conduct. The Court of Appeals for the Federal Circuit affirmed and denied rehearing en banc.

Appendix A

This Court is required to accept the determination of invalidity as a defense unless GFI can show that it was "denied a full and fair opportunity to litigate the validity of his patent in the prior unsuccessful action." *Stevenson v. Sears, Roebuck & Co.*, 713 F.2d 705, 709 (Fed. Cir. 1983). GFI does not allege that it was denied a full and fair opportunity to litigate its claims and, in fact, admits that it is collaterally estopped from pursuing its claims in this Court if the Mississippi court's decision is not overturned.

Therefore, the issue is not whether summary judgment should be granted in Dynasty's favor; based on the Mississippi court's decision, Dynasty is entitled to summary judgment as a matter of law. The issue is whether Dynasty's motion is premature and the case should be stayed pending the Supreme Court's decision on GFI's petition for certiorari. The Court concludes that the case should not be stayed.

On November 30, 2001, the Court held a telephonic status conference in this matter to discuss how the Federal Circuit's decision affected proceedings in this Court. At that time, counsel for GFI informed the Court that they had petitioned for rehearing en banc and were awaiting a decision. Counsel also stated:

> if they [the Federal Circuit] adhere to [the Mississippi court's] decision, then we would be moving in Montana to dismiss the case, probably by stipulating.

After being asked about timing, Counsel stated:

> I'm not sure on the timing of that, Your Honor, but it doesn't really matter. If [the petition for rehearing en banc is] denied then we will enter into a stipulation with the defendants to dismiss

> the Montana case, regardless of — because we're not going to take — we're not going to take the matter to the Supreme Court.

GFI represented to the Court that a denial of rehearing en banc would lead to a dismissal of this action and they would not be petitioning for certiorari. GFI now wants to back out of its representation and continue a stay of the case pending a decision on the petition for certiorari. GFI represented that it would stipulate to dismiss the case if the Federal Circuit denied rehearing en banc, and it will be bound by that representation.

Accordingly, IT IS HEREBY ORDERED that Defendant's Motion for Summary Judgment (dkt #86) is GRANTED.

IT IS FURTHER ORDERED that the Clerk shall enter judgment by separate document in favor of Defendant and against Plaintiff.

Dated this 28th day of September, 2002.

DONALD W. MOLLOY, CHIEF JUDGE
UNITED STATES DISTRICT COURT

APPENDIX B — STATUTORY PROVISIONS INVOLVED

37 C.F.R. § 1.56 (1988)

§ 1.56 Duty of disclosure; fraud; striking or rejection of applications.

(a) A duty of candor and good faith toward the Patent and Trademark Office rests on the inventor, on each attorney or agent who prepares or prosecutes the application and on every other individual who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application. All such individuals have a duty to disclose to the Office information they are aware of which is material to the examination of the application. Such information is material where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent. The duty is commensurate with the degree of involvement in the preparation or prosecution of the application.

(b) Disclosures pursuant to this section must be accom-panied by a copy of each foreign patent document, non-patent publication, or other non-patent item of information in written form which is being disclosed or by a statement that the copy is not in the possession of the person making the disclosure and may be made to the Office through an attorney or agent having responsibility for the preparation or prosecution of the application or through an inventor who is acting in his or her own behalf. Disclosure to such an attorney,

agent or inventor shall satisfy the duty, with respect to the information disclosed, of any other individual. Such an attorney, agent or inventor has no duty to transmit information which is not material to the examination of the application.

(c) Any application may be stricken from the files if:

(1) An oath or declaration pursuant to § 1.63 is signed in blank;

(2) An oath or declaration pursuant to § 1.63 is signed without review thereof by the person making the oath or declaration;

(3) An oath or declaration pursuant to § 1.63 is signed without review of the specification, including the claims, as required by s 1.63(b); or

(4) The application papers filed in the Office are altered after the signing of an oath or declaration pursuant to § 1.63 referring to those application papers.

(d) No patent will be granted on an application in connection with which fraud on the Office was practiced or attempted or the duty of disclosure was violated through bad faith or gross negligence. The claims in an application shall be rejected if upon examination pursuant to 35 U.S.C. 131 and 132, it is established by clear and convincing evidence (1) that any fraud was practiced or attempted on the Office in connection

with the application, or in connection with any previous application upon which the application relies, or (2) that there was any violation of the duty of disclosure through bad faith or gross negligence in connection with the application, or in connection with any previous application upon which the application relies.

(e) The examination of an application for compliance with paragraph (d) of this section will normally be delayed until such time as:

(1) All other matters are resolved, or

(2) Appellant's reply brief pursuant to § 1.93(b) has been received and the application is otherwise prepared for consideration by the Board of Patent Appeals and Interferences, at which time the appeal will be suspended for examination pursuant to paragraph (d) of this section.

The prosecution of the application will be reopened to the extent necessary to conduct the examination pursuant to paragraph (d) of this section including any appeal pursuant to § 1.191. If an appeal has already been filed based on a rejection on other grounds, any further rejection under this section shall be treated in accordance with § 1.93(e).

(f) Any member of the public may seek to have an application stricken from the files pursuant to paragraph (c) of this section by filing a timely petition to strike the application from the files. Any such timely petition and

any accompanying papers will be entered in the application file if the petition and accompanying papers (1) specifically identify the application to which the petition is directed, and (2) are either served upon the applicant in accordance with § 1.248, or filed with the Office in duplicate in the event service is not possible. Any such petition filed by an attorney or agent must be in compliance with s 10.18.

(g) A petition to strike an application from the files submitted in accordance with the second sentence of paragraph (f) of this section will be considered by the Office. An acknowledgement of the entry of such a petition in a reissue application file will be sent to the member of the public filing the petition. A member of the public filing such a petition in an application for an original patent will not receive any communications from the Office relating to the petition, other than the return of a self-addressed postcard which the member of the public may include with the petition in order to receive an acknowledgement by the Office that the petition has been received. The Office will communicate with the applicant regarding any such petition entered in the application file and may require the applicant to respond to the Office on matters raised by the petition. The active participation of the member of the public filing a petition pursuant to paragraph (f) of this section ends with the filing of the petition and no further submission on behalf of the petitioner will be acknowledged or considered unless such submission raises new issues which could not have been earlier presented, and thereby constitutes a new petition.

(h) Any member of the public may seek to have the claims in an application rejected pursuant to paragraph (d) of this section by filing a timely protest in accordance with § 1.291. Any such protest filed by an attorney or agent must be in compliance with s 10.18.

(i) The Office may require applicant to supply information pursuant to paragraph (a) of this section in order for the Office to decide any issues relating to paragraphs (c) and (d) of this section which are raised by a petition or a protest, or are otherwise discovered by the Office.

(j) If any disclosure pursuant to this section does not include a copy of each foreign patent document, non-patent publication, or other non-patent item of information in written form which is being disclosed or a statement that a copy thereof is not in the possession of the person making the disclosure, applicant will be so notified and given a period of time within which to file the copy or a statement that a copy is not in the possession of the person making the disclosure. The time period set may be extended under § 1.136.